Title Performance Pay – Objectives, Operation and Outcomes

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PERFORMANCE PAY – OBJECTIVES, OPERATION AND OUTCOMES

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ABSTRACT

Performance pay has been identified as a key element of modern human resource strategy but published field research has been limited. This thesis investigated the objectives, methods of operation and outcomes of several performance pay schemes through the creation and testing of several hypotheses. Evidence was gathered through a longitudinal study in one organisation augmented by case studies in two further organisations.

The findings showed that organisations demonstrated a mix of operational and cultural objectives for introducing performance pay while the desired outcomes were to promote cultural change, internal equity and increased motivation. However, the findings from the longitudinal survey showed that the desired outcomes were not met, as viewed by the employees. Motivation was not increased, nor did the scheme help to change culture while pay satisfaction remained at a low level, although the employee response to the scheme showed a limited improvement after operating for one year. Positive employee viewpoints were highly correlated to the level of communication and satisfaction with pay.

In terms of the influence of employee characteristics, women and non-union members were significantly more positive than men and union members. A cluster analysis showed that negative views were more strongly held than positive views which statistically influenced the outcomes and employees with such negative views had a 'bundle' of characteristics, namely middle grade males with long service and union membership.

This research has made a number of contributions. It has added to the limited number of UK field studies and its longitudinal nature provides unique findings. It has provided data on the launch and initial period of operation of a performance pay scheme, as perceived by the employees. It has shown further evidence of strategic use of performance pay schemes with a newly constructed model. The findings have important implications for management, especially in relation to the identification of key supporter groups and opponents to the scheme and the issues that employees regard as key to the success of the scheme.

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CHAPTER 1 INTRODUCTION, AIMS AND OBJECTIVES

1.1 INTRODUCTION AND BACKGROUND TO THE RESEARCH

The growth in performance pay has been one of the most significant developments in human resource practices in recent years (Harris 1999). Research, analysis and discussion of performance pay has taken a number of forms in recent years both in the UK and in the rest of the English-speaking world. There have been numerous reports of the introduction and operation of performance pay schemes (Arkin 2002, cases on Unilever, Woolwich Building Society and Yorkshire water in Brown and Armstrong, 1999, Keeler, 1991, Hilton 1992, Willing 1994, IDS 1996). Alongside these positive and, generally, uncritical narratives, there has been a large body of prescriptive literature developed by consultants and other commentators advising on how schemes should be designed and introduced and operated in both the public and private sectors (Makinson 1998, Murlis 1990 and 1993, Turner 1996). Finally, there has been a consistently high level of academic studies in the form of surveys and case studies which have provided a far more critical and evaluative analysis on the subject. (Morris & Fenton-O'Crevy 1996, Heywood et al 1997, Kessler and Purcell 1994, Lewis 1997, Marsden and French 1997, Heery 1998, Grimshaw 2000, Harris 2001)

This large body of published material reflects the continuing interest in the study of the subject where pay is influenced by the level of performance of the individual or the team and demonstrates its current relevance. The proponents and analysts of performance pay, as a key component of human resource management, have set out a wide range of long-term objectives. These can include increased worker commitment, (Guest 1991, Storey 1992) improved quality of work and customer service (Snape et al 1996) together with enhanced flexibility in working practices. (Kruse 1996, Hume 1995, Lawler 2000). Performance pay may also aid recruitment and retention (Bevan and Thompson 1992), produce a fairer environment (Brown and Armstrong 1999) and contribute towards a more satisfactory psychological contract (Guest 1998).

The interest in performance pay can be traced back to two key publications. Beer et al's (1984) Managing Human Assets and Fombrun et al's (1984) Strategic Human Resource Management promoted reward management to the foreground of strategic thinking by becoming central to the employment relationship. In Fombrun's model, pay and rewards became one of the four important human resource management policy areas, together with selection, appraisal and development.

The growing rise in importance of strategies for paying employees has coincided with the changing economic, social and technological context. Changes in the management of people at work are part of wider changes to organisations and to society. The pressure for changes in human resource policies and practices stems from economic, societal and technical change. According to Flannery et al (1996) there are at least six major changes that are common to almost every organisation which will have a major influence on all forms of employment policies, including reward, in the foreseeable future. *Globalisation*, associated with the liberalisation of markets, has brought in its wake the need for labour to be cost-effective if the organisation is to survive. Charles Handy (1994) reminds us that the new equation for success is '1/2 workforce, paid twice as much, producing 3 times as much'. Performance pay is one method of attempting to improve such cost ratios.

Rapidly changing technologies and the *shorter cycle times* has produced immense pressures on organisations to move nimbly, to continually re-invent themselves and to put flexibility at the heart of the business. Performance pay has a role to play in supporting flexible work systems. (Grimshaw 2000, Stredwick 1997) *Today's ever-demanding customers* are a further driving force in improving choice, quality and personalised sensitivity. These pressures often put the emphasis on short-term performance and many organisations have responded to this by introducing better performance measures and instituting revised payment systems appropriate to these measures. (Brown 2001, Pettigrew 1999)

Flannery et al's (1996) final changes are the major responses organisations make. They focus on *'fundamental competencies and capabilities* that will set them aside from the pack' (p11) *and the demands they make on their employees*. Hamel and Prahalad (1994) emphasise the importance of such a change : 'Delegation and empowerment, for example, are not just buzzwords, they are desperately needed antidotes to the elitism that robs so many companies of so much brainpower.' (p131) Employees are being asked to accept new values, behave differently, learn new skills and be prepared to take more risks. Performance pay systems have been introduced to reinforce these new demands and to channel employees' effort and ability in the direction the organisation wants.

Despite the range of research publications, there are many gaps. In fact, Dowling and Richardson (1997) comment that:

'In spite of the rapid growth in the use of performance pay schemes in the UK, there have been surprisingly few attempts to gauge their success and even fewer attempts to explain empirically any observed success or failure' (p 348)

The current study was initiated largely from the author's interest in the subject, having operated, as a practitioner, various performance pay schemes over a 20-year period in both the public and private sectors and in large and SME organisations.

1.2 ROLE OF REWARD MANAGEMENT

The need to initiate changes in employee practices represents a major challenge for the human resources department. The role of reward management in the introduction of effective change has taken a number of forms, each one related to the link between pay and performance:

- **The greater emphasis on the performance of employees at all levels in the organisation**. It has been increasingly recognised that the quality of the human resources is a serious factor in producing a long-term competitive advantage, especially if those resources are efficient and productive (Patterson 1997, Ulrich 1998, Thompson 2000). That is why much more attention is now focused on identifying, appraising, managing and rewarding the performance of all employees. This stretches from increasingly sophisticated board-level and executive incentives to schemes that reward all employees in the organisation. The pay system can be seen as a cultural tool that can be actively engineered by managers who attempt to achieve particular behavioural or attitudinal outcomes from employees (Kunda 1992). An interesting development has been the equal movement down this line in both the public sector and the private sector. For example, The Sheehy report (1993) into the pay and conditions of the police force recommended that police pay at all levels be linked to performance and it has been a factor in higher education settlements on a number of occasions since 1990.

- **The need for reward strategy to reflect the overall business strategy**, especially in terms of competitive differentiation. Milkovich and Newman (1996) contrast the 'cost leader' (prevalent in the 1960s to 1980s) which strives to achieve desired quality at the lowest price for its products/services against the 'innovator' (more prevalent today) which strives to constantly introduce new products by shortening cycle times and by focusing on customer satisfaction with innovative products and services. Their different approaches to pay systems is shown in Table 1 where the innovator places a much higher emphasis on performance based pay and less on internal consistency.

Table 1- Organisational Approaches to Pay Systems

Policy Choices	*Cost leader*	*Innovator*
Internal consistency: Emphasis on assessing job content/person's skills	High	Low
External competitiveness: emphasis on variable pay (performance based) over fixed pay (seniority or across the board increases)	Low	High
Employee Contribution: emphasis on merit or incentive based pay over cost of living or seniority adjustments	Moderate	High

Source: Milkovich and Newman 1996 p16

- **A shift towards the individualisation of the employment relationship**. Rather than determine pay through the traditional processes of negotiation with trade unions or staff associations where an employee's pay is directly determined by their pay or grade, organisations have moved towards reward systems where a sizeable proportion of their pay arises from aspects of their individual performance. This system may be called merit pay or performance related pay. Research by Heery and Warhurst (1994) showed that the majority of 61 unions surveyed reported that they had at least a proportion of their members covered by individually determined pay arrangements, with the highest prevalence in non-manual unions and financial services. Geary (1992) reports clear evidence of a company in his study attempting to individualise relations through encouraging personal effort and performance as part of a controlled and systematic performance pay scheme.

- **Increasing the flexibility within reward systems**. This has shown itself in a number of ways. Firstly by the development of broad-banded salary systems which have replaced inflexible job evaluation schemes. These allow more freedom for the employee's basic salary to rise through a larger range reflecting an employee's changing job role, wider responsibilities, increased skills and competencies plus improved performance. (Abosch 1995, IPD 1997) Pay, therefor, becomes related to performance.

Secondly, by encouraging employees, through pay incentives, to adopt the required behaviours or competencies that lead to improved performance. These schemes are often linked to an organisational competency framework that drives much of the human resources strategy. The introduction of such competency frameworks and associated pay schemes are supported by research showing that competence-based management development leads to improvements in individual, organisational and business performance (Winterton and Winterton 1996).

Finally, by encouraging the learning and adoption of skills that aid flexibility and lead to increased performance, both individually and collectively. There is a very strong association in studies by Lawler and Ledford (1987) in America and Cross (1992) in the UK with the integration of such a reward system with other features of human resource management, including employee involvement, job enlargement, commitment and total quality management. As Lawler and Ledford (1987) put it:

'A high level of employee involvement may be necessary to realize fully the benefits of skills-based pay. Increased employee flexibility and broadened employee perspectives may be wasted if employees are not given the power to use what they learn through participation groups and job designs that create greater self-management.. Rewards for learning multiple jobs may also facilitate job rotation and cross-training which are essential to self-managing team designs.' (p24)

- **Attempts to increase employee commitment through the linking of linking pay with organisational performance.** This can take a number of forms including profit-sharing, (Kruse 1996) gainsharing (Graham-Moore and Ross 1990, O'Dell 1987,Welbourne and Mejia 1995) and encouraging employees to consider themselves as 'intrepreneurs'. As Ros Kanter (1987) explains:

  'Many companies are encouraging potential entrepreneurs to remain within the corporate fold by paying them like owners when they develop new businesses...... Most of the entrepreneurial schemes pay people base salaries, generally equivalent to those of their former job levels and then ask them to put part of their compensation at risk, with their ownership percentage determined by their willingness to invest. This investment then substitutes for any other bonuses, perks or special incentives they might have been able to earn in their former jobs. This arrangement allows potential entrepreneurs to take less risk although the returns are proportionally less high compared to actual ownership' (p64)

1.3 PAY FORMATS

Lawler (1971) provided an early classification of pay for performance schemes along three dimensions. First, pay can be distributed to individuals (piecework, merit pay), groups (group PBR, team-based pay) or organisations/units (profit related pay, gainsharing). Secondly, performance can be measured by productivity, cost-effectiveness or supervisor/manager evaluations. Thirdly, payments can be made as a salary increase or a cash bonus. A further, more obvious, distinction is made by Kessler (1992) between payment for time worked and payment for performance. The former is associated chiefly with basic pay while the latter with 'add-ons', payments that augment the basic pay.

This research will be dealing primarily with aspects of performance pay. In the UK, it is common for the nomenclature to be 'performance related pay' whereas, in America, it is more commonly known in as 'merit pay'. For ease of identification, it will be referred to throughout this dissertation as 'performance pay'.

Although the different varieties of Performance pay will be set out in more detail in the literature review, a basic explanation and definition is in order at this early stage. Brown and Armstrong (1999) define individual performance pay as:

'Any pay scheme which relates the award of a base pay increase or an individual cash bonus to the results achieved by that individual.' (p15)

Performance pay is the outcome arising from the performance management process as set out by Armstrong (1999). In his model, Armstrong demonstrates the integrated process of corporate missions spawning business plans that lead to individual performance agreements, performance measures and reviews which ultimately lead to the pay awards.

The performance measures can be constructed, essentially, in three ways:

- By way of explicit, quantifiable measures, such as output, sales, or deliveries.
- By way of the achievement of certain personal objectives related to the individual's job which are usually time-related.
- Through the measurement of employee skills or competencies that the organisation has defined and incorporated into the reward system.

Finally, payments can be distributed as individual bonuses on top of basic pay or the process can be utilised as a determinant of the basic pay increase itself.

We shall see from the literature search and findings chapters that each of the above approaches are not bereft of difficulties, both in theory and practice. They confirm Beer et al's (1984) view that

'The design and management of reward systems constitute one of the most difficult HRM tasks for the general manager.' (p113)

1.4 RELEVANCE, TOPICALITY AND ORIGINALTY

The success of performance pay schemes is of considerable importance in today's organisational context. Unless organisations continually improve their performance and maintain their competitive stance (or keep within their public sector monetary restraints), their long-term future is in doubt (McClure and Tyson 1995). By utilising performance pay systems, they have the opportunity to define their required performance through an integrated performance management system, project this to their workforce and motivate their employees through the process of measurement, feedback and reward.

Research into this area, therefore, is both relevant and topical to today's working environment. If it can be shown that such reward systems as performance related pay may have terminal faults, then this would have an influence on prescriptive policy. If, on the other hand, it can be shown that such systems have a degree of success, then this can influence the approach that can be taken both in the academic field and in the practitioner area to keep examining systems that may meet general and specific requirements for companies and organisations.

In terms of originality, it will be shown that, although there have been a large and regular number of 'macro' reports examining performance pay from a management viewpoint, there have been very few that take into account the other side of the picture, namely the viewpoint of employees as to the relevance, operation and success factors of a performance pay scheme. Certainly, those that question the issue of individual versus team-based reward from the perceptions of employees have been negligible in number in the UK. A further dimension of originality extends to the nature of the longitudinal study contained in this dissertation.

1.5 AIMS AND OBJECTIVES

Heneman (1990) set out over 30 areas of possible research into performance pay. These included an examination of the external context and organisational driving forces for the introduction of performance pay, the extent and varieties of performance pay schemes, their effectiveness in practice, the strength of causality between performance and pay and the views of the stakeholders. For this project, a number of these areas have been selected where gaps in the literature have been identified.

The general aim of this research is to examine the objectives for introducing performance pay and to examine whether these objectives are met in practice, from the viewpoint of both management and the workforce. A subsidiary aim is to demonstrate some of the strategic reward changes that organisations have made in the field of using performance-directed systems

The main objective is to identify the inter-action between employers' expectations of performance pay and the outcomes in practice. This will be achieved through undertaking field research in appropriate recipient organisations including measuring employee attitudes and outcomes.

1.6 Research Questions

The research questions start with the question of scheme objectives and continue with the actual outcomes principally as seen by employees working under the scheme. They are set out as follows:

1. What are the reasons for organisations to introduce performance pay?
2. Does the introduction of performance pay improve the distribution of pay increases so that they reflect an individual's performance and are therefore fairer and more equitable? (FAIRNESS)
3. Does performance pay increase the level of employee morale in the organisation and thereby the commitment of employees? (MORALE/COMMITMENT)
4. Does performance pay help to motivate the workforce towards a higher level of performance and productivity? (MOTIVATION)
5. Does performance pay help to change the culture of the organisation so that it becomes more geared to improving performance? (CULTURE)
6. Does performance pay assist in retaining employees? (RETENTION)
7. Does performance pay, paid individually, harm or hinder team working?
8. Is it possible to identify employees by specific characteristics who may be more positive or negative towards performance pay?

The first question will be examined through an analysis of three organisations that have introduced performance pay. The remaining questions will be examined mainly through detailed analysis of data obtained in one organisation, principally from employees working under a performance pay scheme.

The data will be examined at two stages as this is a longitudinal survey. Firstly the views of employees when the scheme is introduced and, secondly, when it has been operating for a year in practice. Hypotheses relating to the employees' perception of the success of the scheme will be set up. Full details of the methodology are given in chapter 3.

1.7 Structure of Thesis

The structure of the thesis is set out as follows:

Chapter 2 is the **Literature Review,** which will consider published evidence on a number of themes. It will start with a short analysis of the origins and development in practice of various forms of performance pay and its current extent before moving onto an examination of the literature associated with the research questions identified for this thesis. The remaining four themes relate to the large body of literature which is opposed to performance pay, the difficulties that organisations face in practice and the ways that success in schemes can be identified and the theme specific to group pay systems.

Chapter 3 is the **Methodology** chapter where the various research options are discussed, taking into account approaches that have been made by other researchers in this field. This is followed by the description and justification of the methodology used.

Chapter 4 provides the **Findings** relating to the first research question, namely why organisations introduce performance pay with the outcomes from three case studies where qualitative research took place together with a commentary on those findings.

Chapter 5 is the **Findings** which deal with the background and empirical findings relating to research questions two to eight. This takes place in Telecoms, the organisation where quantitative field work took place, together with an initial commentary.

Chapter 6 provides a **Summary, Interpretation and Discussion** of the findings and their relationships with the research questions together with the **Implications for Management** and **Suggestions for Further Research.**

CHAPTER 2 – LITERATURE REVIEW

2.1 INTRODUCTION

In Chapter one, it was suggested that the use of performance pay is one of the strategies chosen by organisations to assist them to meet their strategic objectives. This strategy is normally not an isolated strategy but part of a collection of strategies centred around the way employees are managed, usually referred to as human resource strategies. In turn, human resource strategies link with associated business strategies, such as marketing, sales, manufacturing, service-providing and finance to make up a total organisation strategy. This is the conventional theory, although practice rarely portrays this tightly integrated approach.

The literature search is set out as follows:

- Firstly, a brief background explaining why organisations have moved towards the principle of performance pay.
- Secondly, an examination of the current state of performance pay and the influences, philosophical, strategic and tactical, that underpin its operation, including measures of its 'success'.
- Thirdly, the literature as it relates to the research questions
- Fourthly, how performance pay applies in the group or team situation.

2.2 ORIGINS AND DEVELOPMENT OF PERFORMANCE PAY

Performance pay systems can take a multitude of forms. The earliest examples were based on forms of piece-work. Robert Owen, in one of the first factory settings, used a 'silent monitor: a piece of wood mounted over a machine with one of four colours to denote the daily performance of the operator. At the end of the week, the payments made were based on the colours of the wood (Stredwick 2000). A number of analyses of the role of performance pay schemes (Brown 1962, Bowey 1986, Berlet and Cravens 1991) have concluded that production schemes, such as piece-work, with too narrow a focus and without widespread support within the organisation, have lead to wage drift, poor employee relations and early degeneracy of the system.

The changing business environment of the late 20th century has led to a series of writings which have set out to demonstrate that reward strategies need to be devised and implemented to match this highly competitive, customer-driven environment (Kaplan and Norton 1992, Lawler 1990, Milkovich and Milkovich 1992). Probably the most well known of these has been called the phenomenon of 'New Pay' by Zingheim and Schuster (1995) where pay programmes are designed to reward results and behaviours consistent with the key goals of the organisation and used as a positive force for organisational change:

'New pay links companies and people by means of an economic partnership in which the results of successful company performance are shared with the people who make the success a reality. Strategic alignment means people and organisations share goals and the rewards of success' (p42)

2.3.1. Current Extent of Performance Pay

The 1988 ACAS survey found that 33% of organisations operated a form of individual performance pay while the Cannell and Wood survey (1992) reported that 47% of private sector organisations had performance pay schemes for all non-manual grades. 37% of public sector organisations operated some form of performance pay for non-manual staff, although only 6% of schemes covered all non-manual staff. Cannell and Wood's view was that:

'The impression that individual performance pay is tending to replace many of the fixed incremental systems which existed previously was confirmed by the ....survey and by the review of settlements from 1983. Both of these showed that it had spread from senior management to non-manuals generally.' (p44)

By 1998, the IPD survey (IPD 1998) of 5000 organisations found that performance pay was in place for 40% of management staff but only 25% of non-management staff. This does not, on the surface, indicate much, if any, growth in the use of performance pay and the results were met by a generally bemused response from practitioners at the 1998 IPD Compensation Conference when they were announced. Despite a degree of contradiction, the IPD report goes on to support the idea of growth in performance pay schemes:

'Contrary to the popular belief that organisations are becoming disillusioned with performance pay, and with individual performance pay in particular, the results strongly suggest that the use of all forms of performance pay is growing....... 59% of schemes, for example, have been introduced within the last five years.' (p6)

A number of other smaller surveys have also supported their findings of gradual growth. An IRS survey in 1994 (IRS 1994) found that 87% of managers, 57% of professionals and 41% of clerical staff were paid under such schemes. A Personnel Today survey a year earlier (Creelman 1995) reported that the proportion of organisations was as high as 67%, although from a survey of under 200. Two years later, an IRS survey (IRS 1997) indicated that the proportion had risen to 70%, compared to 63% two years earlier, with a further 13% planning to introduce such a system. In the same year, an IDS report (IDS 1997) of 400 organisations found that there had been a slow growth in performance pay from 1990 to 1996 but there had then been a marked shift in this direction in the services sector, especially financial services. The same indication emerged from a 1998 Personnel Today (Daly 1998) survey where the coverage in financial services was 72%.

Continuing in the public sector, John Major's launch of the Citizens' Charter (1991) directed employers in that sector, including the government itself, 'to make a regular and direct link between a person's contribution to the standards of the service provided and his or her reward' (p7). By the mid-1990s, all civil servants' pay contained an element which was performance related. By 2000, experienced teachers at the top of their scale were able to apply for additional pay points which would be applied on the basis of measured elements of the teachers' performance and 70% of those eligible obtained the performance based increment within two years of the introduction of the scheme.

There has also been an apparent expansion in local authorities. A survey (LACSAB 1990) revealed that 39% of local authorities had performance pay in force or had taken the decision to introduce them while a further 27% were considering them.

However, this view of expansion in both the public and the private sector was not shared by Incomes Data Services (IDS 1998) who commented that:

'The large number of organisations dropping performance pay is a striking revelation because it is a far larger number than any previous survey has revealed. To an extent it reflects dissatisfaction with performance pay in some public sector organisations and NHS Trusts...... However, it points to one unavoidable conclusion. There has been a great deal of flux over the past few years. Many organisations have adopted a new system, found it unsatisfactory and moved on, often reverting to their old approach – or a modified version of it.' (p8)

Implementation in certain parts of the public sector have also been reported as patchy. Its penetration in the NHS, for example, has not so far been very deep (Arrowsmith et al 2001).

Official statistics, which have often changed the nature of the questions that form the basis of their reports, throw little light on this subject. An examination of the New Earning Survey for 1982 to 1993 (quoted in Hume 1995) show that the percentage of full-time employees in all industries who, as part of their total remuneration, have an element which is performance related, fell from 55% in 1982 to 43% in 1993. Hume explains, not exactly convincingly, that the survey relates only to full-time employees and that the inclusion of part-time employees would increase the percentage. Certainly there has been a growth in part-time employment over this period but it has not all been in the services or administrative areas where performance pay is more likely to operate.

The findings from the 1998 Workplace Employee Relations Survey (Cully et al 1998) showed that individual performance pay schemes for non-managerial employees was in place in only 11% of establishments. An explanation of the differences between this finding and those earlier is that the 1998 WERS covers organisations and premises of all sizes whereas most reports sample mostly large organisations. Smaller organisations are far less likely to have formal systems of performance pay (Downing-Burn and Cox 1999). Having said this, anecdotal evidence would suggest that informal systems of performance pay are widespread in the sense that pay increases for managerial and administrative staff in SMEs are usually decided personally by the Chief Executive. Because he or she would know that individual's performance, then it would be an important factor in the pay decision. In larger organisations, that personal knowledge would not apply so formal systems would need to be in place.

Performance pay in boardrooms has been long established, although there has been a slower trend towards low basic, higher bonuses than in America. Rogers (2000) explained that British executive reward was moving towards a US model and the introduction of US-style reward assessment that measures the impact of executive reward on shareholder funds.

2.3.2 How Performance pay works in theory.

There is a wide range of methods used in operating performance pay schemes. This chapter sets out an overview of some of the more common methods in operation.

According to Kessler and Purcell (1992) there are three steps in the performance pay process:

- Stage 1 Establishing the criteria upon which performance is based
- Stage 2 Measuring the performance of the individual
- Stage 3 Converting this measurement of performance into a pay increase.

Stage 1 Establishing the criteria.

There are two main methods here. Firstly, there is the setting of *individual objectives*. They may be cascaded down from organisational objectives set out in business plans (Wright 1994) and, ideally, a performance agreement is reached with the individual who will agree with these objectives (Brown 1989). The objectives should be SMART (Specific, or stretching, measurable, achievable or agreed, realistic, time-based) and the number of objectives should be limited to between 4 and 8 (Armstrong and Murlis 1998).

The second method is to establish a *competency framework* (Brown and Armstrong 1999) which provides the base for the skills and competencies that employees should aim to achieve. These will consist of organisational competencies, which aim to make the organisation unique or give it a competitive advantage, and specific job related competencies.

Some performance pay schemes are based on one method or the other but, increasingly, schemes combine the two. This is because there are major advantages and disadvantages for each approach.

Heery (1998) describes an approach by a local government that set up a performance contract with each employee without objects or indicators and relied heavily on line management's subjective assessment of individual performance. This was introduced to 'keep it simple'. The director of personnel explained that the system was 'intended to be relatively informal and to maximise the discretion of the appraising manager' (p80). The Inland Revenue revised scheme, introduced in 1993, set targets which were specifically related to the Inland Revenue's 'Four Cs', namely customer service, compliance, cost efficiency and caring for staff, although teamworking also had an important role (Marsden and French 1997).

In most of the organisations studied by Kessler and Purcell (1992), rewarding both inputs and outputs was common, reflecting a view that that it is just as valid to recognise and encourage individual growth within a job as the ability to meet specified targets.

Stage 2 Measuring the Performance

Where objectives are set, performance can be measured by judging whether the objectives have been achieved or not. Where competencies are involved, however, it becomes necessary to carry out a rating of the employee's performance. One of Thompson's (1993) organisations had a three level rating scheme, 'exceptional', 'competent' and 'unsatisfactory', which replaced an earlier eight level rating scheme which had proved unworkable. Another of his organisations, a local authority, had a six point rating scheme. In the Inland Revenue scheme (Marsden and French 1997) staff are rated as 'not met, succeeded or exceeded' their targets. In addition, jobs may be counted as 'extra loaded' and, if so, the rewards for 'succeeded and exceeded' are increased.

The distribution of the ratings is a subject of considerable controversy as it has a serious impact on the issue of the conversion into pay. If all employees are rated as excellent, then the scheme can become extremely expensive. In one of Thompson's (1993) organisations, the response to the over-rating of employees was to devolve salary budgets to departmental managers. This was intended to have the effect of giving managers responsibility and the ability to use the pay bill to motivate employees more effectively.

However, in many examples, this has led to a perception of unfairness where the distribution of the ratings is predetermined. In Marsden and Richardson (1991), there was a widespread impression that a 'quota' system existed and 74% of employees believed that some staff were denied the box marking they deserved because of this informal quota. Following their report, the Inland Revenue expressly ruled out the existence of a quota in their subsequent 1993 Guide. Despite this clear protestation of all employees being treated equitably over rating, 78% of respondents to the later survey (Marsden and French 1997) still believed it operated.

Stage 3 Converting the Performance into Pay

For one of Geary's (1992) companies, when it has decided the amount of money available for performance awards, a pay matrix was developed which linked performance ratings to a range of pay increases, varying depending on the current position of the individual on their salary grade. An example of a performance pay matrix is shown in Table 2.

As an example, an employee who was rated very effective and who was on the midpoint of their salary scale (100%) would receive an increase of 5%.

Table 2 Example of a Performance pay Matrix

Grid showing percentage increases to be paid to individuals

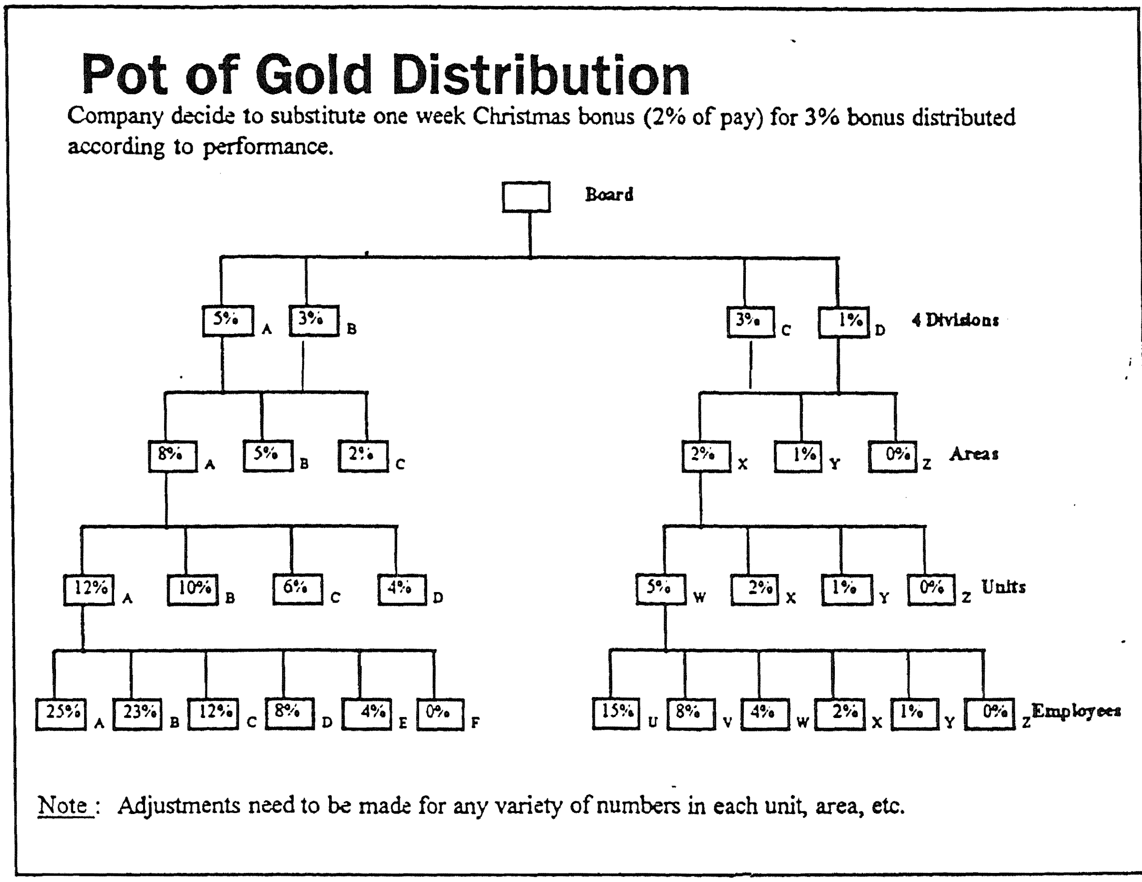
Position in ▶ salary band	**90-94%**	**95-99%**	**100%**	**101-105%**	**105-110%**
Rating ▼					
Excellent	8	8	7	7	6
Very Effective	7	6	5	4	3
Effective	5	4	3	2	1
Developing	4	3	2	1	0
Basic	2	2	0	0	0

Source: author

An alternative method to the pay matrix of allocating pay awards arising from a performance pay scheme is shown in Figure 1, called the 'pot of gold' method (Brown and Armstrong 1999). The intention here is to maintain a cap on pay awards but for the money to be more fairly distributed according to the performance of the unit as well as the individual.

In this case, the organisation decides how much money is available for distribution, usually on a formula related to the profits of the organisation and the current level of inflation. The sum available is then split between departments and teams according to the performance of that department/team. Within the team/department, the allocated sum is then split between the individual employees. This is the method used by one of the organisations studied by Lewis (1997). He reported a major disadvantage of this method. Managers at the bank could not tell their staff what level of ratings would lead to specific pay levels as this depended on the profit achieved in the bank overall. Disclosing these figures earlier would have 'revealed management's negotiating hand to the trade unions.' (p13). The outcome was that managers gave higher ratings than they felt reasonable in case the pot was small and their good managers would receive little in terms of reward.

Figure 1 – Allocating pay through 'Pot of Gold' Method



The awards can be in the form of additions to the basic pay, separate supplements or the payment of a lump sum, or a combination of the three. A further option is for the performance rating to trigger a progression further up their scale. In Thompson's (1993) local authority, an employee on point one of a five point scale, who was rated as excellent, would progress two further scale points. Another employee who was at the top of the scale and rated as excellent would receive a cash bonus. A similar system operated in the Inland Revenue (Marsden and Richardson 1991).

The CBI/HAY (1995) survey (CBI 1995) showed some interesting figures on the elements of performance rewarded in performance pay schemes, a summary of which is shown in Table 3

Table 3 Elements of performance rewarded in variable pay schemes

Employee group	**Achievement of Objectives**	**Achievement of personal development goals (competencies)**	**Team contribution**
Executives	37%	11%	14%
Senior Management	39%	13%	15%
Management/ Professional	34%	12%	15%
Supervisors/ Technicians	20%	8%	10%
Clerical/ Secretarial	19%	8%	10%
Manual	14%	2%	7%

(Source : CBI/HAY 1995 p29)

These are the responses for all organisations in the survey, not just those operating a performance pay (variable pay) scheme. Objectives are still clearly in the lead as a basis for the measurement of performance but the element of team contribution is surprisingly high.

Forms of rating the performance were present in around 50% of organisations with the highest proportion (77%) in the financial sector. 5 ratings were the most popular (21%) and 4 ratings coming next (9%)

The amount of at-risk pay can vary. Heery (1998) indicates that most performance pay schemes have a much lower proportion of pay at risk than the 30% common on shop floor payment by results schemes. The figure in his research of local government schemes was around the12% level but many other schemes are well below this, as indicated by the pay matrix in Table 2. For most organisations, therefore, performance pay moves only tentatively in the direction of increasing the proportion of pay at risk.

2.3.3 Best Fit versus Best Practice

Since the mid 1980s, a debate has continued as to whether performance pay can be considered to be a 'best practice', one that should be applied in all organisations as a fundamental part of the pay determination process. The alternative view here is that each organisation faces different circumstances and therefore the 'contingency' approach should be adopted where the reward systems to be used are those that 'best fit' the circumstances of the organisation and the market place (Purcell 1999; Hutchinson, Purcell and Kinnie 2000).

Early research in this area sought to identify the links between individual practices, such as pay systems, and organisational performance (Becker and Gerhart 1996) with the implicit assumption that the effects of such practices were additive. However, there is now a clear view that these practices have a much stronger effect when they are used in combination. Research evidence seems to indicate that the collection of such practices produced enhanced results and there are a number of advocates whose research gives some support to this viewpoint (Pfeffer 1994, Huselid 1995, Storey 1992: McDuffie 1995). In each of their research publications of employment practices that should be central to any organisation that claims to be at the forefront of best-practice, performance-related reward is one of those central practices (Marchington and Wilkinson 2002). Incidentally, recent evidence by Guest (2000) indicates that very few companies actually operate many of these practices. Of 237 organisations studied in a cross-section of organisations of various sizes, only one per cent of respondents operated 13 or more out of the 18 best practice HRM practices they specified.

The fundamental problems associated with the 'best practice' concept are pointed out by Purcell (1999), particularly the lack of a link with company strategies and the ways of defining precisely the components of the bundle of HR practices and their interconnection. Furthermore, there appears to be little concern for the unitarist assumptions made about the goals or interests served by these best practices.

Wood (1996) examined the practices of what he called 'high commitment management' (HCM) in manufacturing plants in the UK. The study found that those plants in which merit (performance) pay is paid as a permanent increase to the basic wage are likely to have higher levels of HCM and that these practices had been adopted irrespective of observable external environmental factors. However, he also found no systematic association between the use of HCM and the use of performance or contingent pay systems.

Other authors on high commitment take a different approach to pay practices associated with high commitment. Roach (1999), for example, reports a high incidence of both individual and collective performance pay, as does Walton (1985). In Gallie et al's (1998) survey, it was established that the greater the extent of the performance management/ performance pay scheme, the higher was the commitment measure.

Looking further at the contingent approach to pay, proponents of the 'New Pay' point out the obvious contrasts of organisational contexts so pay systems need to be appropriate to the structural, technological, procedural and market characteristics internal and external to that organisation (Kessler and Purcell 1992). For example, the context of the prison service is very different indeed to the context of an e-commerce company and it would be wildly unrealistic to put forward the view that similar best practice pay systems could be successful at two such organisations.

Recent governments have appeared to take the view that performance pay is a 'best practice' that should be introduced throughout the public sector. John Major's Citizen's Charter (1991) gave strong encouragement:

'Pay systems in the public sector need to make a regular and direct link between a person's contribution to the standard of the services provided and his or her reward.' (p7)

Under the Labour government, the Treasury report (Makinson, 1998) provided a whole raft of recommendations on linking pay to performance in the public sector as though the government had not changed. As detailed earlier, teachers have also been faced by the drive towards a performance pay scheme (School Teachers review Body 1998)

Critics of performance pay in the public sector would point to a number of factors indicating its lack of success. The IPD research project on performance pay (IPD 1998) found that 'public sector respondents are much less likely to feel that their schemes are generating beneficial outcomes for their organisation on virtually every indicator' (p6). Furthermore, research into schemes at the Inland Revenue and elsewhere (Marsden and Richardson 1994, Marsden and French 1998) showed a very poor response from employees working under the scheme.

Proponent of the 'best fit' concept are not immune from criticism. Legge (1995) rejects the assumption that there is an organisational strategy with which the HR practices can fit, pointing out that this is often the case of rhetoric after the event. In any case, if the 'best fit' bundle is adopted by all the competing parties, then none will gain competitive advantage, which Purcell (1999) calls 'mimetic isomorphism'. In the double glazing industry, for example, the strategic lead taken in the early 1960s by Everest Double Glazing of using commission-only, highly financially-focused sales employees was quickly copied by incoming competitors which quickly eroded the dominant position within 10 years (Author's experience).

The final refined view here adopts the resource-based view of strategy (Boxall 1996) which argues that successful firms are those that develop an approach which is closely matched to their own circumstances and which takes advantage of their particular strengths, referred to as idiosyncratic contingency.

2.4 Addressing the Research Questions

'Performance pay schemes are like illicit love affairs.....when you are not personally involved in one you feel that you are missing out on something marvellous. When you are involved, you spend most of the time being miserable'

Torrington (1992) p178

2.4.1 Introduction

In this chapter, existing research studies are examined to discuss viewpoints and findings that relate to the research questions set out on page 9. Reference will be made especially to a number of UK studies and, to place these in context, a brief classification of these studies is now given in Figure 7, including their methodology. A more detailed summary is set out in Appendix 3.

Table 4 Classification of main UK Research on Performance pay

Research	Year	Nos orgs	Org areas	Nos of employee	Research Typology	Type of scheme	Findings
Swabe	1989	1	Financial services	9000	Case study Interviews	Individual perform-ance pay. Merit rating on 5-point scale	77% employees considered scheme was an improvement after one year. 42% considered pay did not accurately reflect their performance. Costs were constrained
Geary	1992	3	Electronics	Total cc5000	Case study Interviews	Varied	Less than half happy with performance review. Sense of satisfaction with overall level of pay. Allowed consequential changes in operational requirements
Proctor et al	1993	1	Manufacturing	600	Case Study 20 interviews	Perform-ance pay	Scheme costly to operate, lack of confidence in scheme, no appeal system, general dissatisfaction.
Lewis	1997	3	Financial services	unknown	Qualitative 86 interviews	Perform-ance pay	Centralised ratings, favouritism, lack of communication, not integrate with business objectives.
Kessler and Purcell	1992 1994	8	Various	unknown	Interview plus two attitude surveys	Various unspecified	Scheme supported by younger employees, women and those with short service . Opposed by older and long-service employees. Union membership did not affect views. Principle of performance pay supported.
Marsden and Richard-son and Marsden and French	1991 and 1997	1	Inland Revenue	C 3500	2423 questionnaires (1992)	Box rating with quota system (1992) without (1997)	Strong views against scheme in 1992 - Did not motivate (80%), box marking process fundamentally flawed. 1997 results even more negative. 57% thought managers rewarded their favourites. Number of management who saw scheme as increasing performance rise from 22% in 1992 to 42% in 1996.
Thomp-son	1993 a	3	Building society, local authority, supermarekt chain		1000 questionnaires	Various	Performance pay had neutral effect, no effect on high performers, it did not help to change organisational culture, importance of relationship with manager on views of scheme identified, more positive views from senior staff.

Dowling and Richardson	1997	6	NHS Trusts		114 questionnaire to managers	Various	Managers considered scheme to raise their own motivation, level of challenge important.
Heery	1998	4	Local authorities		1300 questionnaire plus 47 interviews	Various	Schemes generated neither positive nor perverse effects. Own performance fairly assessed, satisfied with total pay but still undercurrent of suspicion.
Harris	2001	80	Various	N/a	80 managers interviewed plus 36 follow up three years later	Various	Managers do not share principles or stated objectives of schemes. Organisational constraints felt strongly. Size of compensation pot restrictive. Process took up too much time.

2.4.1 Research Question 1 Objectives of Performance pay

A simplistic version of managerial objectives for performance pay was set out by Kessler and Purcell (1992), namely that they replicate the core aims of any payment system: to recruit, retain and motivate the workforce, although refinement of these has involved highlighting the need for 'fairness' and 'equity'.

Objectives for performance pay can vary considerably, depending on the context of the organisation and this section will examine this complexity by dividing objectives into two main groups, operational and cultural.

Operational Objectives

Figure 2 Operational Objectives

OPERATIONAL OBJECTIVES

- Control
- Communication
- Recruit and Retain employees
- Effectiveness

Operational Objectives, set out in Figure 2, serve to lead and control. As organisations exist in an increasingly competitive environment, it becomes more and more important for employees to have clear guidance and direction towards the organisation's aims and objectives. Underpinning the performance pay scheme will be a performance management system that sets out to communicate that link between an organisation's mission and strategic direction and the required employee performance. This will be in the form of targets and objectives cascaded down from the organisation's business plan to units, teams and individuals. An Ashridge College study (Goold and Campbell 1987) demonstrated that performance pay schemes were used more aggressively by larger, more diverse businesses with a 'financial control' management style.

In the public sector, the need for rationalisation can play an important part. Alan Milburn, Health Minister, explained (Timmins 1998) that there was a need to introduce performance pay into nurses pay because the existing system involves 'dozens of hierarchical and segmented grades, arcane allowances and increments that are paid, irrespective of changes in skills, responsibilities and performance' (p14)

In Heery's (1998) study of local government schemes, he found strong evidence that performance pay was being used to rectify a perceived problem of inadequate labour performance and to ensure employees complied with the demands of a more exacting and tightly delineated employment contract. The emphasis on control led to using performance pay to reinforce hierarchies and facilitating line management control of subordinates. He reported a Borough Treasurer saying that performance pay was introduced because 'local government used to be able to survive with passengers but cannot afford to any more –times have changed' and the chair of the personnel committee claimed there was a need to change attitudes 'so that people were rewarded for what they did and got the cane when they did not' (p77).

Using performance pay also acts as a measure of the effectiveness or efficiency of the workforce, particularly where there are external or inter-unit comparisons. The strongest and the weaker performers can be readily identified; the strongest can be used as role models or utilised in training and the weaker employees helped to improve through coaching, training or discipline. The identification of weaker performers can take place through published league tables as in Everest Double Glazing (Stredwick 1997).

Mason and Terry (1990) reported on the introduction in the NHS of more detailed performance systems and associated payment to improve the efficiency of ancillary employees as part of a wider report on the use of incentive systems. The objective was to 'reflect attempts by management to re-establish a degree of control over work organisation, worker effort and reward that has been eroded by the power of shop floor trade unions' (p1). Further evidence of using performance pay as a means of gaining greater control over professional groups in the public sector has been provided by Sinclair et al (1995) and Fairbrother (1996). Geary (1992) took the control theory further by contending that the introduction of individual performance pay as a layer superimposed on team working was a way of dissolving dysfunctional solidarity which team working may have developed.

Improving business performance was the main driving force behind the introduction of performance pay by NatWest Bank, according to Armstrong (1999). The scheme was intended to encourage greater concentration on corporate and personal objectives by clarifying at each level what the key objectives were, relating them to specific circumstances and rewarding managers according to how well they achieve them.

Using performance pay to extend management authority was a major objective for one of the companies studied by Proctor et al (1993). This company used performance pay superficially to harmonise terms and conditions between staff and shop floor but, in reality, it used performance pay to remove *de facto* the trade union's right to negotiate collectively over pay. Heery's study (1998) found that there was 'a clear impression that performance pay was intended to force managers to take tough decisions, tighten up on job performance and exert more of a disciplinary role (p77).

Performance pay is often seen to be used by management in pursuit of greater financial control. Kessler and Purcell (1992) describe a company that have used it to replace an open-ended financial commitment to one where increases were targeted at those 'who most deserve it' and where it provides better 'value for money'. Performance pay is also used to achieve better control over the pay bill and to prevent pay drift, (Armstrong 1999) especially where the system in use is the 'pot of gold' which has a finite total.

Recruitment and retention is a very common objective. It was an important feature of the late 1980s in the public sector where professionals (architects, planners, accountants, etc) were moving to the private sector at a time of rapidly falling unemployment and where general pay increase for public sector staff could not be afforded. The introduction of performance pay supplements to these groups was an attempt to stem the tide of attrition (LACSAB 1990). The importance of recruitment and retention goals was clearly apparent in ManCo, one of Kessler and Purcell's (1992) companies being studied, where strong central guidance was provided to line managers urging them to allocate performance increments to occupational groups where there were local labour market pressures.

Other objectives relating to control have been detailed by Hume (1995). These include improving quality, reducing wastage, increasing labour flexibility and reducing overtime.

Cultural objectives

Figure 3 Cultural Objectives

CULTURAL OBJECTIVES

- Trust and Openness
- Drive and motivation
- Cultural change
- Fairness

On the *cultural* side (See Figure 3), the performance pay system can feature as part of the overall drive to build a more open relationship with employees. Organisation plans can be shared, appraisal discussions can be frank within a realistic context and means of improving performance can be encouraged and openly evaluated. This was one of the main driving forces in NHS Trust managers scheme investigated by Dowling and Richardson. (1997) and by the food retail company in Thompson's (1993) study who wanted to 'encourage a culture of high performance and to stimulate greater employee involvement and commitment to the business' (p7).

Moreover, because employees always have a higher motivation towards goals with which they agree or have had some input, the performance pay system provides the opportunity for employees to have a voice in the process through the individual performance plan, in whatever form it is agreed.

Another important purpose is to endeavour to produce a system that is regarded as fair and equitable, especially in the rewards that emerge from the process. Swabe, 1989, describes the financial services organisation that introduced performance pay because their previous service-related, union negotiated pay systems did not allow selective pay increases based on performance and they wanted to reward merit more adequately. A well thought through performance management system should provide a defensible framework within which the many types of rewards can be allocated, rather than on the basis of personal whim or prejudice. Research carried out by the Local Government Management Board (1996) revealed that employees who work under a performance management scheme have an enhanced understanding of the needs and requirements of their job and have a higher 'feel-good' factor in relation to working for their organisation compared to those organisations where no such scheme is in place.

Concepts of equity were present in Proctor et al (1993) where their performance pay scheme was introduced at the same time as harmonised terms for white and blue-collar employees.

A further objective allied with fairness relates to dealing with areas of employee performance which produce major concerns. Employees will not take kindly to criticism if they are unaware of the standards expected of them. It is certainly not possible to engage in disciplinary proceedings on performance that will be regarded as fair without having such standards in place.

Promoting the unity of interests between management and employees is a further significant aim (Lewis 1997). Guest (1987) stresses the integration of employees into the business so there is a unitary focus of interest and an effective performance management process under performance pay which incorporates integrated targets, regular feedback, robust measuring and significant differentiated rewards will support such an integrated approach.

Cultural change is often a significant objective. Batstone et al (1984) draws attention to the importance of performance pay as part of the management strategy to break down the Post office ideology of corporate paternalism and bureaucratic centralism. In their substantial Templeton research programme, Kessler and Purcell (1994) found that performance pay was used as one of the key levers for organisational transformation in a number of the organisations studied. It was related to the following aspects:

- *Corporate culture*: performance pay was introduced to promote values suggesting that the company was performance driven, cost conscious and flexible.
- *Commitment*: performance pay schemes were seen as encouraging employee commitment by 'locking' the individual in by relating pay to behavioural traits derived from Company mission statements.
- *Communications*: performance pay, through the performance management process, forces a direct relationship between line managers and their staff, ensuring a regular face-to-face dialogue.

They set out further examples where performance pay was seen to have characteristics that may accord with the company image in terms of flexibility, dynamism, entrepreneurial spirit and careful allocation of resources (Kessler and Purcell 1992). One such example relates to a privatised utility who sees performance pay as being 'appropriate' to a private company and another where it was seen as essential to the conscious design of an individually orientated organisational culture on green field sites. Moreover, they saw performance pay as more than simply sending messages to individual employees about organisational values. In three of the organisations studied they found management consciously attempting to weaken union power through performance pay. It was part of a package of measures focused upon the individual and designed to foster the view that employee benefits are not solely dependent upon union action. In a newspaper company, performance pay was introduced with a new communication scheme, profit sharing and a company health scheme as a means of undermining employee perceptions of significant union power.

They reported a final cultural change in using performance pay as a means of forcing the manager into a direct one-to-one, face-to-face relationship with their subordinates, ensuring managers think carefully about their decisions and can defend them.

The cultural change scenario is repeated at Yorkshire Water (Brown and Armstrong 1999) where the reward manager, Amanda Stainton is quoted :

'Money is not the most important motivator in life but it is a lever for change, a symbol, a way to change behaviour. Without the pay linkage, the new performance management system would not have had the power and the priority required to really impact on management and behaviour in the organisation. The history was of managers backing away from tough decisions'(p52).

Geary (1992) provided evidence of companies using reward processes to shape employees' normative orientations. At the time of appraisals and as part of reward objectives, it was stressed to employees the necessity of attaining high quality levels, to be efficient and flexible. Social criteria were also reinforced through an emphasis on employees 'ensuring team norms are adhered to'. As he explains:

'The reward system helped to sustain normative behaviour by showing approval, in the form of a merit increase, for appropriate work efforts, and by showing its disapproval in sanctioning poor performers' (p44).

A further example of a cultural change is in the original Natwest Bank scheme (Goodswen 1988) where it is reported:

'NatWest's culture had entered a new phase and the climate was favourable for a shift in emphasis from management by control to management by leadership. It is essential that leaders make sure that the broad picture is known, understood and reflected in measurable, personal objectives for those in the management team. They must provide individual members of those teams with personal job satisfaction through feedback on performance against objectives. Management leadership also requires the ability to discriminate in the reward given to the exceptional, compared with the standard performance' (p62).

Hume (1994) points to the use of performance pay to facilitate the introduction of new work designs and also to make managers more accountable for the assets that they manage. In the public sector, performance pay has been used to introduce cultural change. Its introduction in the NHS, as explained by Bach (1994), 'signalled the emerging commercial orientation of the NHS and started to challenge the traditional patterns of NHS industrial relations' (p100).

Conclusions on Objectives

A mixture of objectives will usually apply for most organisations. Storey and Sisson (1998) put the two groupings of operational and cultural objectives together and call them ideological objectives. They recognise the change of culture required, pointing to the many cases reported of performance pay in privatised utilities. They also emphasise the change in the managers' role, forcing them to manage and take tough decisions about their staff's pay. Thirdly, they focus on the individualisation of the process ' the implication, at the very least, is that trade unions and collective bargaining will play a lesser role in pay determination' (p146).

Managers are not always at one with the objectives set for performance pay in their organisations. Harris (2001) found a low commitment to performance pay processes that could be explained by 'a perception that these (processes) had been imposed with a different set of objectives to those publicly stated' (p1190). Moreover, 'perceptions of fairness among the managers were frequently more closely related to those of the employees they supervised than the principles reflected in the systems they had to apply' (p1191). Managers recognised the potential for diffusion and even a distortion of the scheme's key objectives, particularly in its ability to deliver longer-term goals.

Heery (1998) also found mixed objectives in what he called the 'dualism in the ideological underpinnings' (pg 91) where the Conservative councils had been driven by the desire to ensure employees 'return to contract' through being managed more tightly while also promoting the kind of flexible orientation and an entrepreneurial attitude amongst the employees.

An in-depth IDS survey (IDS 1999) reported that scheme objectives and detailed operations were becoming more complex. Multi-factor bonus schemes were increasingly being implemented, including a selection of customer service and quality components, safety and environmental goals and HR measures, alongside more traditional financial and output targets. This supports the proposition that schemes are increasingly being recognised as contingent, driven by specific organisational needs.

The real reasons for implementing schemes may never be disclosed. Although Dowling and Richardson (1997) report that the reason for introducing the NHS Managers' scheme was said to be to reward those managers who achieve a more than competent standard of work, they point out that 'the true motives behind the scheme are not totally transparent' (p350).

2.4.2 Outcomes for Performance pay

In this chapter, an examination is made of the research questions, (set out in 1.6) concerned with the outcomes from performance pay schemes.

Figure 4 Expected Outcomes for Performance pay

EXPECTED OUTCOMES

- Improved perception of Fairness
- Greater employee motivation
- Higher morale and employee commitment
- Higher employee retention rate
- Willingness to accept cultural change

Research question 2 Performance Pay and Fairness

'People tend to accept as fair that which is conventional or that to which they have grown accustomed'

(Brown 1995)

If employees hope that performance pay schemes, with their underpinning performance management system, will be seen by employees as fair and equitable then the research evidence to date appears to dash many of such hopes. The lack of fairness is a combination of the way the scheme is constructed and the way it is operated in practice.

Marsden and Richardson (1992) report a 'widespread doubt about the fairness of the appraisal system' (p25). Staff considered the system to be abused and widely unfair in its operation. Staff were frequently denied the 'box marking' that they deserved because of a quota applied on high markings. Over a third of staff considered favouritism to influence the marks.

The employees in Geary's (1992) study regarded management's claim to fairness as 'shallow, if not utopian' (p45). In one of the companies, only 4 out of 24 employees questioned were happy with the appraisal system. Many considered that management was not prepared to fund the scheme properly. Some of the supervisors responsible for the assessment supported this view, as they found a number of their decisions on ratings to be overturned in the interests, they thought, of economy. In any case, they found objectivity in rating very difficult and many considered that giving employees similar increases was a way of avoiding conflict and dysfunctional individualism.

The difficulties in objectivity were shared in Proctor et al (1993) where management's views on what constituted fairness were not shared on the shop floor. Moreover, the fact that the great majority of employees being appraised were female, whereas the appraisers were male led to a number of complaints of sexual discrimination, supporting the viewpoints expressed by the EOC (1992).

Furthermore, objectives set were not always agreed with the employees concerned and were found to be unachievable, assessment grades were concentrated in the middle of the range and, even when objectives were met, next time round they were increased – seen as a 'Catch 22' situation. The assessments, in any, case, were carried out all in a rush at the same time at the end of each quarter. Furthermore, a grade 1 assessment (called a 'nails in the hand' job) was never awarded and supervisors were extremely loathe to award a grade 5 or 6 because of the difficulties and implications this would signal. Worse still, it was apparent that grades were 'forced' in that supervisors' ratings would be altered by managers. 'you can't have too many 3s- you need some more 4s' (p67). It could be argued, however, that this is a normal process of monitoring the assessments to ensure they are carried out consistently but it is not always seen this way by the managers and employees concerned.

Favouritism and subjectivity were continuing themes in Lewis's (1997) research, including evidence of the 'old boy network', the employee's visibility, and congruence with the 'pet issues' of your manager (p9).

Another criticism in this organisation was the secrecy concerning the assessments. Management expected employees to keep their own assessment confidential but this would rarely be the culture in a workplace so they nearly always leaked out. Because they were subject to rumour, it spread a degree of despondency and this lead, in turn, to a general view of dislike of the scheme.

Less conclusive evidence either way emerges from Thompson's(1993) report where the mean scores measuring employee's responses to a number of statements on the fairness of the scheme were around the 'not sure' mark. High performers, however, tended to perceive performance pay in a more favourable light.

There is some fleeting evidence that reports more positive views from employees, especially in the private sector. In Swabe's (1989) study, employees consider that the operation of the objectives system was fairer and more consistent than the previous arrangements, although 20% complained that the objectives were imposed rather than negotiated. Furthermore, 42% did not feel that their eventual performance pay rise reflected the performance they achieved. A similar result emerges from an employee survey at 'Pubco' in Kessler and Purcell (1992) where 54% of union members felt that the new performance pay scheme was fairer than the previous across the board, cost of living scheme (p20) and in the first Inland revenue survey (Marsden and Richardson 1992), where employees still agreed that, 'with all its faults, it is better to have performance pay than not' by 49% to 44%.

The only major survey showing a fully positive feedback on fairness were the results in Dowling and Richardson (1997) where the majority of the NHS managers were satisfied that the appraisal interviews were conducted appropriately, that the way they were measured was fair and that due consideration was given to the relative difficulty of different objectives. However, a substantial majority recognised the influence of subjective judgements on performance pay awards and there were a number of anecdotal comments indicating lack of support for the method of attributing the final bonus.

Perhaps more surprisingly, in the Heery (1998) local authority survey, a majority of employees indicated that they believed their own performance to have been fairly assessed and where objectives had been set, they have generally been relevant to the tasks although the outcomes were not regarded as universally fair.

Although the general evidence is that employees have not been convinced of the fairness of performance pay schemes in operation, the literature shows that there have been notable exceptions. For this thesis, a hypothesis has been set up to examine how effective a performance pay scheme is in achieving a perspective of fairness among employees. This is as follows:

Hypothesis one - FAIRNESS
That performance pay contributes to the objective of distributing pay increases in line with employee contribution.

This thesis will test this hypothesis and will go on to identify the influences on the employees' perceptions and to identify which groups of employees give more support or rejection to this hypothesis.

Research Question 3 Performance pay and Morale/Commitment

From a managerial viewpoint, the perception that employees may be committed to various interests within the workplace has consistently encouraged attempts to use rewards as a means of strengthening identification with and loyalty to the organisation and the job (Guest 1987). The introduction of performance pay is often seen as further progress down this road. The search for employee commitment has often been a stated reason for the introduction of such schemes (Kinnie and Lowe 1990, ACAS 1990). Although referring to profit-related pay, the 1986 Green Paper (Command 1986, para9) stated that 'performance pay schemes should lead to a closer identification with the companies in which they work.'

Kessler and Purcell (1992) set out three ways in which schemes have sought to generate a higher degree of commitment. Firstly, assessed pay criteria are often derived from corporate plans or missions. Cascading goals and values are translated into individualised performance targets or behavioural traits and have the effect of locking the individual into the organisation in a highly visible and meaningful way.

Secondly the process of performance management usually forces direct communication between the employee and their manager, helping to create a long-term bond, ideally working towards a common purpose to which they are both committed and from which they gain, psychological, social and economic benefit. The third, a more controversial concept, is the way that the introduction of performance pay schemes has sometimes been associated with the de-recognition of the unions representing the employees concerned. At British Rail, for example, the Transport Salaried Staff Association was de-recognised when a performance pay scheme was introduced for middle and junior managers. (Involvement and Participation 1990). Other examples, including Thames Water and Amersham International, have been reported in Petch (1990). The idea here is to encourage employees to transfer any residual commitment to the union across to the organisation.

Kessler (1995) points out how management's intentions in the area of commitment have not always borne fruit. The financial constraints under which these schemes operate may weaken rather than strengthen commitment, especially under a 'pot of gold' scheme where it may be announced that little money is available at the end of the year or where all or most of it is awarded to the high flying departments or individuals. Disappointment can hit commitment hard. A second area is where the lack of a successful relationship with the manager in terms of the whole performance management and performance pay allocation can lead to disappointment and cynicism over the whole scheme and a reduction in commitment. His final point is that increasing commitment, especially through helping the individual to development their skills and their career, is seen as a 'soft' human resources approach, while performance pay is seen very much as a number-crunching, control-style 'hard' human resources activity. The clash here may create dysfunctionalities.

In the study in the Inland Revenue, the potential for performance pay to destroy trust and commitment was demonstrated clearly (Marsden and Richardson 1994). The researchers found that over half of the line managers operating the system agreed that performance pay had reduced staff willingness to co-operate with management and that it had caused jealousies between staff and discouraged team-working. Similar doubts were expressed in other public sector studies (Marsden and French 1998), although the performance pay scheme for NHS managers (Dowling and Richardson 1997) found otherwise. There were more positive scores than negative scores from managers in response to the question 'Taking all aspects of the performance pay scheme into account, does it have either a positive or negative effect on your motivation to do your job well?' although a majority still indicated that it had little overall effect.

Geary (1992) similarly found a questionable success in performance pay engendering commitment to the organisation's goals. Many were confused by management preaching both the virtues of collectivism (by stressing the importance of team working skills) and individualism (by paying employees on an individual basis). They were also made more negative by the additional stress on flexibility (linked to the payment process) where increasing the range of skills was emphasised. Many employees felt the lost of the ability to develop and extend their core skills to become a highly skilled specialist expert.

Although Guest (1998) found that 'Contrary to much of the evidence on performance management and performance pay, the perceptions of fairness are higher in those organisations that do make some attempt to link pay and performance'(p47), he also placed a low emphasis on the effect of reward systems in an extensive study of what made up a positive psychological contract (Guest and Conway 1997). In their findings, the nature and extent of rewards simply did not score highly in the way that they looked at the relationship between their job, their expectations and the way those expectations were met by the employers.

A different approach is taken by McAdams (1995) who investigated various aspects of the ownership of schemes by employees. He found that the ratings by employees of non-financial results (teamwork, performance-reward link) were significantly better when non-management employees were involved in the design and implementation of schemes, although it appeared that the financial results were better when they were *not* involved. He also found that where a formal employee involvement/recognition scheme was associated with the performance pay scheme, then the outcome showed higher ratings and better financial performance but not significantly so.

Most research on morale takes place in organisations where performance pay schemes have been introduced. In 1978, Greene and Podsakoff published the results of a study where a performance pay scheme was removed from one plant and compared the results with a similar plant where such a scheme had not existed. The outcome was that morale rose in the plant where performance pay was removed. What was interesting, however, was that performance fell in that plant compared to the second plant. Once again, this indicates a degree of dysfunctional results. Employees are glad to see the scheme go but their performance reduces. As will be expressed on a number of occasions in this work, these results present serious dilemmas for management. It appears difficult to reconcile the twin pillars of human resource management achievement – a productive, yet happy workforce.

The brief evidence on this issue indicates a lack of success of performance pay in engendering commitment and higher morale. To examine this issue further, a hypothesis has been set up as follows:

Hypothesis two – MORALE AND COMMITMENT

That performance pay contributes towards the objective of increasing employee morale and commitment

This hypothesis will be tested and the influences on employees' perceptions on this issue will be identified.

Research Question 4 Performance pay and Motivation

'The sight of employees sprinting away from the workplace as the factory hooter sounds suggests that well-motivated staff are not necessarily the norm in industry' (Marchington and Wilkinson 2002)

Although this quotation arises from what could be regarded as a narrow, northern grime outlook, there is certainly more than a grain of truth in it. The search for ways to make employees work harder, smarter and more efficiently has been a quest for the holy grail for generations and certainly since the arrival of the large employment sites heralded by the industrial revolution. Early writers, such as Taylor (1911) emphasised the need for a major financial motivator while operating rigid employee control, task de-construction and limited training. Much of the underpinning support for performance pay schemes still rests on Taylor's instrumentality theories.

These restrictive views were rejected half a century later by the 'Needs' school (Maslow 1954, Herzberg 1968) where pay itself was seen as a lower order need and employees were motivated more strongly by esteem, self-actualisation and 'satisfiers', such as recognition and achievement. These theories, in their turn, have been largely dismissed by subsequent researchers (Hall and Nougaim 1968, Robertson et al 1992) as partial and unproven empirically.

An alternative approach was taken with 'cognitive' theories that assume that individuals think their way through a situation and work out how they can benefit from particular courses of action. Vroom's (1964) expectancy theory, which identifies the conjunction of instrumentality, expectancy and valency as determinants of motivation, has been supported, if only partially, by researchers in the performance pay field. Schwab and Dyer (1973) using piecework production employees found a less than convincing correlation of 0.17 between the performance and pay valence outcomes. Using a laboratory setting (and the strictures that management research in this setting produces). Pritchard and de Leo (1973) found a contrary result in that a low valence setting provided the highest performance. Porter and Lawler (1968) found that there was a strong link between the employees' regard for pay as a satisfier and the effort they put in but not, surprisingly, in the actual performance result. Finally, Fox et al (1993), who carried out research into the the attitudes towards pay and actual performance of around 400 employees in a textile factory, found that incentive performance was moderately correlated with a valence of pay scale which measured an individual's perceptions of how pay was instrumental to their self-concept and well being. They used questions such as' The more money I earn the better I feel about myself' and 'I think people respect me more if I earn more than most other people.' Interestingly, another measure, namely how vital the level of pay was to earn necessities, did not show such a correlation. Necessity may bring employees to work but not necessarily to want to raise their performance to earn more money.

A further dimension was added by Locke (1968, 1981) and Locke and Latham (1990) whose goal theory identified the crucial connection of the nature and effectiveness of goals in the performance pay process, specifically that they should be challenging, accepted and feedback on achievement must be given regularly. In addition, Nemeroff and Wexley (1979) found subordinate participation in goal-setting significant while another study found that commitment to the goals by employees was found to be a crucial factor in performance (Erez and Zidon 1984).

Finally, equity theory (Adams 1963, Greenberg 1987, Tyler and Bies 1990) emphasised the role of procedural and distributive justice in gaining employee support for performance pay processes.

It can be seen that the reasoning behind organisations seeking to introduce performance pay is complex and that the motivational theory underpinning such a scheme is shaky. Motivation, in any case, does not automatically translate into performance, as pointed out by Marsden and Richardson (1992):

'People can be highly motivated but still perform badly because of a range of impediments, eg poor management, inadequate training or obsolete equipment. Equally, people can be poorly motivated but perform well, for example if there is tight management….we treat it as a willingness or preparedness to do something, which means that it is a state of mind' (p 10).

This direction is followed by most researchers in the field who measure motivation not by how hard or effective employees work but by their response to a number of statements about themselves and their fellow employees, a practice replicated in this research.

In practice, the response of employees in questions of motivation is almost universally damning. In the Templeton project (Kessler and Purcell 1994), employee surveys were carried out at two of the organisations but the response was very limited:

'Performance pay did not seem to motivate but, at the same time, did not de-motivate; it did not improve or strengthen staff and line management but similarly it did not weaken them; it did not encourage greater teamwork but by the same token it did not appear to undermine it.' (Ibid p6)

The lack of motivation is significant in the first Inland Revenue study (Marsden and Richardson 1992) where only 12% of staff reported any increase. This is confirmed by the supervisors and managers, known as reporting officers, where the results on the lack of motivational increase are very similar. Over half of the staff believed that the scheme had helped to undermine staff morale and caused jealousies. Interestingly, female staff are slightly more positive, as are staff in less senior positions, perhaps because they could earn more through the scheme. Long service staff were very much opposed to performance pay.

When the scheme was re-visited, (Marsden and French 1997), the Inland Revenue employees continued to have a poor view of the motivational aspects of the performance pay scheme with 80% claiming that it did not motivate them. Nor did it give them the incentive to be more effective in their dealing with the public (69%) or to get their work priorities right (64%) or to show more initiative (70%). Moreover, these ratings were worse than the original 1991 survey. Their main reasons for these ratings were complaints about the performance management system in place, including:

- Staff are frequently denied the performance assessments they deserve because in practice there is a quota on (good assessments) (78%)
- Management use the scheme to reward their favourites (57%)
- The amount of money on offer is inadequate (46%)

A number of reasons are put forward to explain the lack of success in the motivation area. Using expectancy theory, Marsden and Richardson found that, although employees felt confident that they could change their behaviour and be able to reach their goals, they (45%) had no confidence that, having changed their behaviours and deserved their high box marking, that this would actually be awarded. Finally, the views on the valency of the eventual rewards were very negative. Only 17% considered the reward worthwhile and 71% considered them insufficient. So two of the three elements of the expectancy theory were not met.

Lewis (1997) found some startling procedures that negated any positive effects of expectancy theory. Managers neither knew what the rewards were going to beforehand and they did not rate it as attractive when it arrived. The 'Pot of Gold' distribution system in operation made the rewards impossible to predict. It did not help that the differentiation in performance pay between good and poor performers was negligible.

Marsden and Richardson also examined goal theory in the context of the research. Employees reported that performance pay has raised staff awareness of the objectives in staff appraisal (57%) but denied that has made supervisors set targets more clearly or that the goals could make them work harder as they already reached the appropriate standard. The researchers agreed that this is far from being a good test of goal theory but indicated that it explains in part the lack of motivational impact.

Goal theory was at the heart of Dowling and Richardson's (1997) work and their results were more positive. Although a clear majority of respondents reported that the scheme had little or no effect on their motivation to do their job well, as many as 29% said that it increased their motivation to some degree. (p352) and they concluded that, on balance, the scheme has a positive motivational effect. This is an exceptional result which may be influenced by the fact that those taking part in the scheme are managers, that the scheme was relatively mature so people have become more accustomed to its working and that it may have been implemented better.

Their last conclusion relates to the goal elements. Managers approved of the fact that the scheme clarified their work roles, that they were influencing in setting their own specific goals, that they understood what was expected of them and felt that their objectives were challenging but reasonable. Their only doubts were on the adequacy of the support and of the feedback given. Certainly it was not the financial provisions of the scheme that motivated them, (p 361) but the element of recognition did play a part.

A discussion on the implications of equity theory on his research takes place in Thompson (1993). The largest influence on procedural and distributive justice was found to be the relationship of the employee with their manager. The importance of this and its effect on motivation cannot be under-estimated:

'This relationship underpins the operation of the performance management systems and our evidence would cast doubt on the competence and ability of managers in the surveyed organisations to effectively manage their subordinates. In such circumstances, the impact on performance pay is likely to be considerably weakened.' (p30)

Although the field research has shown largely negative results, there are some exceptions. A survey of two hospitals where performance pay operated in one but not the other (Schnieder and Olson 1970) found that nurses were more motivated and satisfied with the pay relationship in the hospital where performance pay existed than in the hospital where it did not exist. A study by Greene (1978) of managers in marketing and financial divisions of a large manufacturing company found that performance pay increased job satisfaction. In addition, two further American research projects found that the relationship between performance pay and motivation is often in doubt (Allan and Rosenburg 1986, Heneman et al1988).

To add further research evidence in this area an hypothesis has been set up as follows:

Hypothesis three - MOTIVATION

That performance pay contributes to the objective of motivating the work force.

The hypothesis will be tested and evidence will be gathered on what has influenced employee's opinions in this area.

Research Question 5 Performance Pay and Cultural Change

The role of performance pay as a lever to change the culture of the organisation is one of the more radical claims (Schuster and Zingheim 1992). In practice, the results can be very mixed. Geary (1992) stressed the importance of the performance pay scheme in two of the organisations in assisting the internalisation of appropriate norms amongst the workplace. The reward system helped to sustain normative behaviour by showing approval for appropriate work efforts and showing its disapproval in sanctioning poor performers. The association of performance pay with increases in flexibility and individualisation of the wage-effort bargain allowed management to regain control.

Thompson(1993) attempted to measure the cultural effect through four statements, predominantly based around concepts of trust and communication to which employees responded. The results were largely inconclusive in all three organisations with a mean score very close to the midpoint, although high performers gave more positive results. In the Inland Revenue scheme (Marsden and French 1998), the results were more clear-cut. There was manifestly a view that the system had undermined the integrity of a well-established performance appraisal scheme and that many staff believed that it had caused some deterioration in the atmosphere at work.

Lewis (1997) found that the cultural objectives of enhancing unity of purpose and employee integration set by all three financial companies studied were far from met. Employees mostly had their objectives imposed, the objectives were 'hard' and narrow, which Lewis saw as the 'antithesis of an approach which could have been used to develop resourceful employees' (p18), and the outcomes had little meaningful differentiation. Developing managers in the performance management process was non-existent.

The dilemma faced by management as to whether to use performance pay to break with the past or to ensure that it did not clash with existing culture has been examined by Kessler and Purcell (1994):

'The benefits of a cultural break were perceived to be the creation of pressure points forcing change, the danger being that in creating such pressure, tensions and conflicts may also arise. Other.. (organisations) .. saw sensitivity to the past reflected in a relatively 'gentle' performance pay scheme retaining many past features of pay determination as facilitating the acceptance of change but running the risk of rendering performance pay a 'weak' managerial tool, especially in the eyes of the managers' (p7)

In a case where a performance pay scheme was introduced on the shop floor, (Bell 1999), the company's attempt to present individualised performance-contingent payments as esteem and prestige symbols was met with resistance. Employees chose to keep the payments secret, share them with their work mates or not accept them at all, which clearly indicated that they did not share the organisation's cultural values. They considered that individual merit payments were seen as disrupting the collective nature of their existing shop floor culture.

To examine the ambition of influencing change through a performance pay scheme, a hypothesis has been set up as follows:

Hypothesis four – CULTURE CHANGE
That performance pay contributed to the objective of instilling a positive message about performance expectations and the achievement of company objectives which is recognised by the employees as a culture change.

The impact of performance pay in this area will be examined, together with the issues that influence employees' opinions.

Research Question 6 Performance pay and Retention

We have seen that one of the key objectives of introducing performance pay is to recruit and retain key staff. This was especially true in the late 1980s in the public sector and has played a part in recent years as unemployment continues to drop and the labour market becomes even tighter. Evidence that this has proved effective is mixed. The Business Intelligence survey (Ashton 1995) found that 45% of employers claimed performance pay was totally or highly effective in retaining key staff while 18% found it to be 'not at al' or 'marginally effective' in this area. A research project by Cowan (1978) at Blue Cross in California found that staff turnover dropped by over a half from 44% to 20% when performance pay was introduced.

Thompson(1993), on the other hand, found more mixed evidence. Generally, employees expressed their willingness to stay with the organisation but this question did not relate to whether performance pay influenced this decision. When high performers were differentiated from the remainder of staff, there was only a difference in one of the three organisations (Building Society) where high performing staff were more likely to stay. The results in the other two organisations showed no difference between high and low performing staff. Certainly there was no evidence that poor performing staff wanted or expected to leave.

To gather further evidence in this area, a final hypothesis has been set up as follows:

Hypothesis five – RETENTION/LOYALTY

That performance pay contributed to the objective of offering a competitive salary and benefits package in comparison with rival companies in order to reduce staff turnover and attract a higher calibre of staff.

2.4.3 Conclusions on literature search on research questions 2 to 6

Although the bias towards introducing performance pay for operational reasons seems to be more prevalent than for cultural reasons, there is good evidence for both groups of objectives. and for employers having a mixture of both groups.

There is apparent difficulty in obtaining the hoped-for sense of fairness in performance pay schemes, except in the rare example of research into a management-only scheme. The theory that the stress on individual rewards would lead to greater individual commitment is not supported by the limited evidence and this aim can cause additional tension and confusion between the emphasis on teamworking (collectivism) and individual effort.

The growing expectations of the better educated and skilled workforce can create a confused picture in the area of motivation. Although expectancy theory can provide the framework for determining the level of motivation under performance pay, it is far from clear whether a measure of motivation can immediately be transferred into productivity levels or whether employees themselves directly translate their own perceptions of motivation into an objective view of a performance pay scheme.

In terms of cultural change, there is little evidence either way from employees that the pay scheme can make effective cultural changes although employers are far more confident while the issue of recruitment and retention was similarly clouded, although appearing to be successful from management's viewpoint.

One major problem associated with all of these measures is the issue of a comparison. Employees may be dissatisfied with what they have but it may be better than the previous system. Not all researchers are happy to ask this question or to publicise the result where it is asked. In this latter category, there generally appears the response that the scheme in question is better than the one that went before which did not pay for performance but this is not always the case.

The literature, although extensive in some parts, still shows considerable gaps, especially in relation to cultural objectives and employee perceptions of the outcomes of schemes.

2.4.4 Employee Characteristics and Performance Pay

A number of research projects have attempted to identify specific characteristics of employees that make them approach performance pay in a more positive or negative way. These studies have included differentiating opinion on the basis of gender, seniority in the organisation, membership of a trade union, length of service and rating level.

In terms of **gender**, Marsden and Richardson (1992) found female staff to be slightly more positive towards performance pay. They were more willing to work harder (20% to 15% for men), it encouraged their initiative (29% to 24% for men) and they believed it sustained high performance (29% to 21% for men). On the other hand, they also believed that it had caused jealousies (64% to 59% for men). Whether the differences were statistically significant was not stated and the authors commented that the differences may be as much to do with grade level as gender. In other words, women had a lower grade level and lower grades were more positive. The second Inland Revenue report, Marsden and French (1998), reported that a majority of women did not believe that women as a group lost out under the Inland Revenue performance pay scheme. A contrary finding came from Brenner and Bertsch (1983) who found that assertiveness was an important influence in supporting performance pay and this finding was less strong with females. Heery (1998) found no significant difference.

Seniority in the organisation has shown some very interesting results. Marsden and Richardson (1992) found that grade level and support for performance pay were inversely correlated. Lower paid staff were not outrightly enthusiastic but their overall scores were higher. For example, 40% of revenue assistants considered that the scheme encouraged their initiative whereas only 19% of Inspectors agreed with this. 28% of assistants were more willing to work harder whereas only 13% of inspectors felt so inclined. The authors could not be sure why the relationship existed but surmised that lower grade staff had potentially more to earn from the scheme. The maximum additional pay for assistants could be as much as 22% whereas it was only 12% for senior inspectors, although such payments were extremely rare. They also surmised that staff in higher grades already believed they had a higher level of motivation, making the impact of performance pay more marginal. The results have been different when the performance pay opportunities were much greater for more senior staff, especially for top executives. This was the finding, for example, in Conway and Katerberg (1987).

Given that performance pay has been used as a vehicle to move the organisation from a collectivist stance towards individual contracts (Mason and Terry 1990, Proctor et al 1993, Kessler and Purcell 1992) it would be expected that being a **member of a trade union** would influence an employee's opinion against performance pay. Surprisingly, this does not seem universally to be the case. In Thompson (1993) there is no significant (P<.01) difference in opinion except in one of the organisations and then only in the matter of the principle of performance pay. Elsewhere, all 26 measures showed no difference. Thompson believed that this may have been due to the involvement of trade unions in the design and introduction of the schemes and that all employees have the same desire for equity which supersede any trade union loyalty. This has to be balanced to a certain extent against Marsden and Richardson's (1992) research where all the respondents were members of trade unions and gave a fairly uniformly negative response. However, without the views of non-trade union members, it is unwise to draw conclusions. Heery's (1998) survey found some correlation between union membership and lack of belief in the effect of performance pay on motivation but the result was not significant.

Research appears to have shown quite clearly that **length of service** turns people away from performance pay. Marsden and Richardson(1992) found a clear inverse correlation between service and reaction to performance pay. For example, 30% of staff with less than five years service agreed that performance pay made them more willing to work harder but this fell to 15% of staff with more than 20 years service. 72% of staff with over 20 years service considered that performance pay caused jealousies between staff but this fell to 48% for staff with less than five years service.

The **assessment level** appears to have a clear influence. In Marsden and Richardson's (1992) survey, those staff who had received a 'Box 1' marking (the top level) reported much more positively on the scheme. 50% confirmed that performance pay had led to sustained high performance compared to 19% who received a 'Box 3' marking and 43% reported that it had encouraged their initiative compared to 21% with a 'Box 3' marking. Perhaps this is not surprising. Most winners of races or those winning bids for funding regard the positive result as pretty fair, on the whole. We have seen in the Thompson survey that the issue is less clear with high performers and their retention aspirations. Heery's(1998) survey supports these findings.

In terms of the **public sector/private sector** split, Rainey (1979) found, in his study of 275 managers, that managers working in the public sector saw a much weaker relationship between performance and rewards than did employees in the private sector. They believed that the performance-reward relationship was constrained by their personnel systems. Pearce and Perry (1983) studied five federal agencies over 18 months and concluded that, although the participants had a clearer understanding of the performance standards for their jobs, they did not feel that these criteria promoted increased performance and they also considered it less likely that high performance would lead to increased merit pay. Employees questioned under Heery's (1998) local authority survey, however, were convinced that performance pay is an appropriate system for public service organisations by a majority of 46% to 26% with 28% undecided. At the same time, they agreed with a somewhat contradictory statement that 'professional workers do not need performance payments to work hard' by a majority of 52% to 28%. It could be argued that they regarded performance pay as a means of rewarding and recognising employees but not to motivate them.

Thompson (1993) found some evidence that the **level of training** carried out to prepare staff for performance pay had a small positive effect on their attitude to the scheme.

Thompson also found some support for the theory that effective **communication** leads to a more positive viewpoint and that organisations that involve employees in the design process leads to better perceptions of the scheme (Thompson 1992)

This research will attempt to test on a number of these employee characteristics as follows:

Hypothesis eight – EMPLOYEE CHARACTERISTICS

Sub-hypothesis 8a – Trade union membership

That there is no difference in perception of performance pay between trade unionists and non-trade unionists.

Sub-hypothesis 8b –Gender

That there is no difference in attitude towards performance pay between men and women.

Sub-hypothesis 8c – Age

That the age of the employee does not affect the attitude towards performance pay

Sub-hypothesis 8d – Level of seniority

That the seniority of an employee does not affect the attitude towards performance pay.

Sub-hypothesis 8e – Employee rating

That the personal ratings obtained under the scheme do not influence the attitude towards performance pay.

Sub-hypothesis 8f – Length of service

That the length of service of the employee does not influence the attitude towards performance pay.

Sub- hypothesis 8g – Position in grade scale

That the position in the grade scale does not influence the attitude towards performance pay.

2.4.5– Group Pay systems

We have seen that criticism of individual performance pay schemes have been widespread both from the viewpoint of the recipients and from academic research. From another direction, developments in the way that organisations are managed would appear to give support to rewarding effective teams and team-working. After all, de-layering and other re-structuring processes have put a much greater emphasis on employees working together in teams. Alongside the structural changes, co-operation and participation have very much the buzz-words of the 1990s. According to Smith (1992) ' whereas individual merit pay has been found to be a demotivator, team bonuses pull staff together'

In itself, teamworking may not lead to improved productivity and motivation. Kinnie and Purcell (1998) found that:

'Introducing teams can produce benefits, but there is also a danger of creating a vicious circle in which repetitive and closely monitored work leads to low morale and poor performance. It emerges that the key to explaining team performance is the way in which teams are introduced and the extent to which they are supported by appropriate HR policies and practices'(p34).

Team pay can take a number of forms, relating principally to the size of the team. For whole business units, the format can be that of profit-sharing (Vaughan-Whitehead 1995, Hanson and Watson 1990) or gainsharing (White 1979, Hattiangadi, 1998, IRS 1996). For smaller section of the work force, they may take the form of group or team incentives. The objectives from management's viewpoints for all these schemes are essentially to motivate employees to work more effectively and identify with the organisation's strategy. A subsidiary aim is to save on costs when the company performs less successfully. Pendleton (1999) has expressed doubts whether such aims have any value. Firstly, he believes that employees have developed an effective trade-off between effort and wages in their immediate job so that no amorphous profit-related pay scheme could influence their decisions. Secondly, the vast majority of employees in practice see absolutely no link between their own effort and the performance of the organisation as a whole, especially where it is one of some size.

On the other hand, Vaughan-Whitehead is conclusive that 'the empirical evidence....confirms the positive effects of financial participation schemes on the motivation and productivity of workers, as well as on organisational performance and innovation' (p25).

Bell and Hanson (1984) reported evidence earlier of a correlation between employees' positive attitudes towards identification and commitment and the use of profit-sharing arrangements (including share save schemes). The effect may not be too great, however, especially over time (Dunn et al 1991). The greater effects are where there are three conditions. Firstly, that real participation takes place alongside financial participation; secondly, that the size of the rewards are significant; thirdly, that employees have to feel like owners (Pendleton, et al 1998).

American literature has shown an equally mixed set of results with the most extensive (Blasi et al 1996) finding that 'few of these studies have individually found strong and statistically significant effects of employee ownership on performance' (p63). Microsoft has reported a potential problem with their share option arrangements as a decline in share value would make rapid inroads into the remuneration of their employees to whom share options are a very sizeable proportion.

In a detailed chapter on this whole subject, Hyman (2000) concludes that, in respect of Employee share ownership plan (ESOP) or similar schemes, positive behavioural effects takes place only when major shareholdings are involved. With small shareholdings, employees may appreciate the occasional bonuses that ensue and watch with interest the share price rises and falls but are unlikely to change their work rate or behaviour. Secondly, it has proved difficult to isolate the effects of profit-sharing type schemes from a range of other progressive and participatory initiatives. Combinations of such initiatives including profit sharing and ESOPS do appear to have a synergistic benefit and it does give employees the feeling of a 'voice'.

Thompson (1995) found few examples of team pay, reporting that the scarcity was due to two factors. Firstly, that organisations were seeking to develop and embed these working practices some time before they consider linking them to pay and secondly, management's general approach to remuneration was so 'ad hoc' that the reactive approach would not consider team pay as an approach, except by chance.

This somewhat dismissive approach was not repeated by the IPD (1996) who found 23 organisations who linked team performance and pay, mostly in the financial services, high-tech and pharmaceutical industries. The schemes normally operated in the same way as individual performance pay schemes but some variations exist. In the AA, the scheme is linked closely to a recognition scheme with league tables of team performances and prizes for successful teams. In Dartford Council, the targets set are those that are, in general, over and above the teams' normal duties and often targets that the team devise themselves to match in with the Council's overall strategy. For

Lloyds Bank, the payments are made arising from the 'service challenge', linked to a service quality index.

Zingheim and Shuster (1995) also have found a variety of team-based schemes, with team goal-based incentives being tool most frequently used. Kinnie and Lowe (1998) found in their studies of teams in seven organisations, that payment decisions were made particularly difficult by the conflicting demands of rewarding group and individual performance.

One of the more common features of team pay is that the payments are made in vouchers or in non-cash, such as celebratory days out or holidays, prizes that resemble prizes from sales contests.

Brown (1995) explains some specific problems associated with team pay:

- The 'social loafer' or 'free-rider' phenomenon, where recalcitrant individuals benefit from the efforts of their colleagues.
- The development of group norms which may impede individual and corporate performance, as demonstrated by the treatment of 'rate-busters' in the famous Hawthorne experiment.
- Individual perceptions of not being unable to affect collective performance.

Pfeffer (1998) is not so convinced about the difficulties of the 'free-rider'. He found evidence from Dunlop and Weill (1996) that the extent of free riding is quite modest and that people generally co-operate instead. He retained strong belief in peer pressures and the social relations employees have with their work mates.

In the Norwich Union scheme (IDS 1996) an attempt was made to address the 'social loafer' problem by excluding employees whose individual rating under the continuing performance management system, was a 6 (unacceptable).

Research into factors that contribute to the success of team based pay have come out with different results. Brown (1995) found that senior management commitment, an emphasis on communications, integration with other HR activities and shorter pay out periods were crucial. The American Productivity centre (1987) centred on clear and shared objectives while Cooper (1992) found that a participative management style and employee favourability were the crucial element.

There is strong evidence that maintaining the traditional reward systems alongside new team working methods of operation can present difficulties. Johnson (1993) in examining 35 organisations where team working existed, found that in 60% of the organisations, reward systems operated on a neutral or worse basis as a form of support for the team working. Johnson's recommendation was for the introduction of small-group incentive programmes producing a uniform reward. Saunier and Hawk (1994) report on a food products manufacturer which had embraced total quality management, created highly successful self-managing teams but then found a growing disconnection between the employees' expanded accountabilities and the way they were rewarded, resulting in the de-motivation of teams and employee dissatisfaction.

Problems also can arise where teams become competitive as they may reduce their co-operation. This occurred with Pearl Assurance's scheme (IDS 1994) and this produced some friction. The solution was to move a number of staff around the teams but this then had an effect upon team identity. A further problem was the difficulty of getting staff to grasp the concept of team performance.

'Individuals tended to look predominantly at their own performance and their award expectations reflected this, rather than the performance of their chapter or department'(p30).

Wright (1994) explains three additional difficulties. Firstly, the question of what makes up the team:

'Take a practical example of trying to define a team in a retail banking environment. At first sight to choose the branch as a team may seem easy – a physically distinct group dedicated to service of a defined customer base (the account holders at the branch plus walk-in customers) But then consider the processes in servicing these customers. Loans are subject to agreement by staff at the customer service centre;

standing order payments are also set up there and any problems or mistakes are referred for resolution by this group. Teams of this sort are often like Russian dolls, one team fitting inside a larger one'(p2).

The second difficulty relates to the varying types of team. She defines five groupings (Task Team, Work Team, Programme/Project Team Partnerships and ad hoc teams) all of which operate in a different way and where differing incentive systems need to operate. A potential reward system for such team definitions are explained in Saunier and Hawk (1994).

The third difficulty is ensuring that high performers in the teams are recognised which she suggests should take place through varying base pay in broader salary bands. However, this must add a degree of divisiveness within the team unless the measures are robust.

Mixing in rewards for individuals and teams is not uncommon. With SunExpress's scheme for Telesales operatives, 70% of incentive pay is based on the individual performance and 30% on team performance (Carrington 1995)

Two informative but inconclusive research projects . (Markham 1988, Ivancevich 1983) have examined the effect of the operation of performance pay schemes at the work group level.

Finally, there has been some evidence of improved employee feedback from team-based schemes, although this is anecdotal as no empirical study of true group-based scheme has been identified in this research. Morris (1995) reports that many of the teams in the Laboratory of Alliant Health Systems reported improvements in the quality of their work life, co-operation and morale. The incentive arrangement organised in a pilot study helped to gain the attention of other work groups and encouraged them to form and develop new teams.

No research has been found of employee perceptions of any the team pay schemes, certainly in the UK so the total evidence is incomplete. Commentators continue to point to group payment schemes as options that could help to solve many of the criticisms of individual performance pay schemes.

For this research, a hypothesis has been set up to consider employees' views on team working:

Hypothesis six – TEAM WORKING
That paying performance pay on an individual basis works against the concept of team working.

2.4.6 Opposition to the Concept and Practice of Performance pay

The most strident opposition to performance pay has come from three sources. The first is the philosophical opposition led by the American academic, Alfie Kohn (1993), the second from the trade union movement on both sides of the Atlantic and the third from a group of mostly academics, although joined by a small group of practitioners, who point to the vast number of difficulties involved in trying to get schemes to work in practice.

Philosophical opposition

In an influential article in the Harvard Business Review, Kohn, (1993), criticised the reliance upon rewards in business:

'It is difficult to overstate the extent to which most managers and the people who advise them believe in the redemptive power of rewards. But more striking is the rarely examined belief that people will do a better job if they have been promised some sort of incentive (p54).

Kohn grants that 'bribes' as he calls them, may obtain some initial success but claims that this shows itself almost inevitably as just a form of temporary compliance. When it comes to producing lasting change in attitudes and behaviour, he claims that rewards, just like punishment, are strikingly ineffective. Incentives, he claims, do not change the commitment of the individual and, without that commitment, they can be no lasting change.

He goes on to detail six reasons why rewards fail. In common with Deming (1986) and Herzberg (1968), he believes that *pay simply is not a motivator*. He bases the claim on all the surveys that distinguish between the answers to the question 'what do you care about' where pay typically comes fifth or sixth. Secondly, he considers *that rewards are manipulative* and act as a punishment to those who do not receive them. Employees do not like to be manipulated and employees regard it as a punitive quality over time. Even when employees are 'caught doing something good and rewarded', he regards this an environment of employees being caught and not one that is conducive to exploration, learning and progress.

His third reason is in respect of the *damage done to relationships* between employees. Especially in the case of individual performance pay, everybody is pressuring the system for individual gain and no one is improving for collective gain. Competing for rewards (especially where the budget is fixed or where there is a finite list of winners) is likely to destroy co-operation between individuals. The sometimes bitter disputes that exist at the boundaries of sales territories are a clear example of this problem. A further difficulty here is the way that relationships between employees and their supervisors or managers can deteriorate if rewards are withheld, even for justifiable reasons. Moreover, where rewards are based on assessments, the employees are tempted to conceal any difficulties they may have in order to get a good rating, rather than enter into a full and frank discussion with a view to joint problem-soling and personal development.

A further criticism is that *managers often use rewards as a replacement for managing effectively.*

'Treating workers well, providing useful feedback, social support and the room for self-determination is the essence of good management. On the other hand, dangling a bonus in front of employees and waiting for the result requires much less effort' (ibid, p61).

Nor do rewards, he believes, do anything to *help the ethos of risk-taking*. Much against the protagonists of performance pay who believe that employees will take risks to reach their goals, Kahn believes the opposite. Employees, he reckons, will do just what they are told to do if the reward is significant. In reality, the more employees think about the rewards they will miss if they are unsuccessful, the less inclined they will be to 'play hunches, or explore other alternatives' This is an interesting concept, turning the whole entrepreneurial culture theory on its head.

The final reason he gives is that *intrinsic motivation is the key to success and progress*. You cannot buy an employee's interest in their job. They must like what they do and the more the manager stresses what an employee can earn for higher performance, the less interested that employee will be in the work itself. As he explains, the recipient of a reward may assume 'If they have to bribe me to do this job, it must be something I wouldn't want to do'.

His article leans heavily on research carried out on motivation and incentives by, amongst others, Rich and Larson (1987), Freedman et al (1992) and Pearce (1987).

The article received so much attention that a series of responses appeared the same year in the journal (Harvard Business Review 1993). Amongst the correspondents, G. Bennett Stewart could not see a world without praise, gold stars or incentives, seeing it as communism which was tried and it didn't work. The best incentive for anybody is to have a share of the action In this analogy, he quoted Churchill:

'The virtue of communism is the equal sharing of its misery and vice of capitalism is the unequal sharing of its blessings' (p42)

He does, however, believe that pay should differentiate and that poor performers should be 'weeded out' while the best 10% of performers should be promoted.

Kohn's approach was replicated five years later in another Harvard Business Review article by Pfeffer (1998) who concluded that individual incentive pay undermined performance and encourages a short-term focus. His criticism is rounded on:

'The economic model of human behaviour widely taught in business schools and held to be true in the popular press. This model presumes that behaviour is rational – driven by the best information available at the time and designed to maximise the individual's self-interest......If pay is not contingent on performance, the theory goes, individuals will not devote sufficient attention and energy to their jobs' (pp112-3).

He went on to show that reality did not support that theory. He quoted the results of several surveys showing individual performance pay to be ineffective and that schemes were constantly altered leading to the conclusion by consulting firm William M. Mercer that most such schemes absorb vast amount of management time and resources and make everybody unhappy. A further point he made was that emphasising pay as the primary reward encouraged people to come for the wrong reasons and would be less likely to stay.

In the UK, there has been similar, if more muted, theoretical opposition. Williamson (1975) showed that, under his transaction costs theory, firms rationally choose seniority-based pay systems because the information and systems costs of specifying and monitoring individual performance contracts is too high. (It must be said, however, that computerised control systems have moved on since 1975). Evidence of race and gender bias were found in a two studies (Bevan and Thompson 1991 and Labour Research Department 1992). Thompson (1993) reported the demotivating aspects of 'yet another bureaucratic system imposed by corporate personnel' and the same author has commented that, as trust is so difficult to create and sustain and is fragile by nature, then frequent changes in payment systems may play its part in eroding mutual trust between management and employees (Thompson, 2000).

Heery's (1996) criticisms are three-fold. The starting point for these criticisms is that there is a substantial transfer of risk from the organisation to the individual employee. This occurs in a number of ways. Firstly, by reducing the proportion of total guaranteed remuneration (base pay, benefits) in favour of performance bonuses and other payments that are contingent on measures of success. Secondly, progress in pay does not rely so much on length of service through traditional incremental systems but has shown tendencies to transfer to measures of behaviour or performance on broad-banded salary scales which are less automatic and more responsive to management prerogatives and judgement on performance issues. The final increase in risk is because the measures used often generate uncertainty in that they may be subjective or susceptible to influences beyond the individual employee's control. He backs up his views on the transfer of risk by pointing out the increased return to shareholders compared to pay increases to employees during the 1980s.

His second major criticism concerns procedural justice and the scope for inconsistent treatment of employees:

'Running through the model is an emphasis on contingent pay and the need to tie earnings to measures of performance valued by managers. It can be argued that the implementation of the model is likely to be characterised by actual or perceived injustice, both because pay is linked to performance measures which are only partially subject to employee control and because of the wide latitude allowed for managerial judgement' (p 60).

The third major criticism specifically refers to the reduction of employee rights under new pay systems. The concept that pay must be strategic, reflecting the needs of the business, eliminate the pluralist viewpoint of pay as a meeting point for competing but equally legitimate interests. He pours scorn on the fact that performance pay can help foster shared interests in the workplace through their power of communicating the realities of the organisation's position or of motivating employees to higher performance.

Collinson's(1992) major criticism concerns the way that performance pay works against the integrationist approach to corporate culture. The payment of individual bonuses was divisive and eroded the sense of collective harmony, especially the reinforcement of individualistic pursuit of economic interest.

Finally, the hopelessness of achieving overall success is expressed by Brown, quoted in McHale (1990), who believed that 'all material rewards suffer from the law of diminishing returns. Trying to satisfy individuals with material rewards is like trying to fill a bottomless pit'.

Trade Union Opposition

The introduction of performance pay has often been associated with opposition, quite strident at times, from trade unions. (Heery 2000) Studies have shown that the presence of performance pay is inversely correlated with union recognition (Blanchflower and Oswald 1990, Freeman 1992, Gunnigle et al 1998). Heery points out that:

'This (form of) payment system expresses a new 'individualism' within the employment relationship and represents a sharp break with earlier forms of payment by results, which were integral to the pluralist industrial relations tradition (p64).

So strong was the union opposition to the proposals for introducing performance pay from experienced teachers that the National Union of Teachers took out a successful court action in 2000 against the Department of Education and employment on the basis that insufficient consultation had taken place before the scheme was implemented. This resulted in a delay in introducing the payments(Mahoney. 2000).

One of the major criticisms levelled by Marsden and French (1998) was that performance pay can demoralise the performance management system and cause it to dysfunction. In their study of the Employment Service, they commented on the extensive inflation (over 30%) of job placement figures, on which performance pay partly depended, arguing that 'performance pay had caused staff to lose faith in the relevance and legitimacy of their performance targets, seeing the exercise as more of a numbers game than an aid to job seekers' (p13).

Unions, however, are not always in total opposition. In Swabe's (1989) case, the financial services organisation had faced many years of difficulty over payment systems with the union and, when they introduced performance pay, they took far more time and trouble to convert employees to the change of system and convince them that the system would be inherently fair and operated in an equitable manner.

'This is an object lesson to management about rushing change unrealistically fast and trying to ensure that opposition is converted .... In such a way as to blunt its effectiveness. A cynic might say that the union had little choice in a climate that was increasingly hostile to unions, which must have had a psychological effect on both sides.....Thus it was a sensible investment of time from the employer's viewpoint to negotiate the new system carefully and be prepared to modify its proposals in the light of informed comment and criticism by the union' (p19).

In a sense, it is not too difficult to understand the comprehensive opposition by trade unions when the evidence is examined of de-recognition that has occurred when a number of schemes have been set up. (Petch 1990) Although management would deny that the reduction in union power is one of the aims in establishing a performance pay scheme, there is an admittance in some quarters that it has helped. In the IPD survey (IPD 1998) it was surprising that as many as 14% of respondents admitted that performance pay had helped to curb trade union influence.

Critical approaches to the realities of performance pay

For Lewis (1991), a set of pitfalls awaits the unwary practitioner. These include the subversion of the intended consequences by undermining the performance management process, the difficulties in effectively measuring behavioural factors and the error of central tendency in forced choice rating schemes.

He is especially scornful of the system of performance pay introduced into Universities in the early 1990s, which subsequently had a very short life (Lewis 1993). Among his 'Nine Lessons – but no songs of Praise', he points out the difficulties of objective measuring of academic performance, especially as very few managers were ever trained in the complexities of objective setting and measuring. He goes on to point out the strong effect of external factors on performance, such as the difficulties faced by an academic charged with attracting external funds who finds this almost impossible due to the sudden economic downturn.

Murlis (1988) explains the failure of an early Civil Service performance pay scheme on the 'selective, secretive and ostensibly arbitrary system imposed without the commitment of the top civil servants who had to implement it in their departments.'(p28)

To Meyer (1975), it was no surprise that many employees were dissatisfied with performance pay as his research showed that employees consistently rated themselves highly with over 75% making the self-rating in the top 25%. The reality is that a large group of employees are rated in the middle and only a small number of employees get more than or less than the average. Those who consider themselves to be better than the average but are rated as average will inevitably feel aggrieved.

Critical approaches were found by Harris (2001) to come from the line managers who were responsible for operating the scheme. Despite their wide support for the principle of the scheme, they saw a lack of congruence in the objectives of the scheme with little time allocated to them to invest in the performance management programme or any ownership of the system. There was a strong belief that the schemes were imposed with a different set of objectives to those publicly stated.

2.4.7 Success of Performance pay

One of the most controversial areas associated with performance pay is the discussion on whether the system 'works'. Measures of success can attempt to be objective through correlating profit improvement with the introduction or development of the scheme. There are a number of major disadvantages in this methodology. Firstly, it cannot, in effect, apply in the public sector or the not-for-profit sector. Secondly, and more important, the profit figure arises from a vast range of influences, both from macro effects (boom or recession in progress, rises or falls in interest rates, etc) or micro effects (new product launch, entry of competitor, change in pricing policy, fire in factory, etc.) The direct causal effect of a pay system on profits is difficult to argue, except in a large scale longitudinal survey which attempts to eliminate these variables.

A second method, which can be empirical or descriptive, uses recipient response. This takes place by surveying those employees involved in the scheme – the management, human resources staff and the employees concerned- where attitudinal measures take place to assess the success or otherwise through the eyes of the players.

The argument put forward for this approach is that performance pay is intended to increase motivation and performance and, unless the recipients agree that such improvements have taken place, then the scheme cannot be deemed successful. On the other hand, it can be argued that the fact that recipients see a scheme as a success or failure does not mean that it is. To give a crude example, a loose bonus scheme that provides major increases in pay may be judged a success by those in receipt of the bonuses but not by the accountants. Alternatively, a tight performance pay scheme which manages to eliminate inefficiencies in working practices, such as high overtime or long breaks, may be resented by a majority of employees but may bring longer-term successful financial results.

This chapter examines the research in terms of the effect of performance pay on 'bottom line' results and other management measures of success.

Do performance pay schemes result in improved 'bottom-line'?

'Money begets money'

John Ray. English Proverbs 1670

Because of the measurement difficulties indicated above, there are very few research reports, with the exception of some isolated American studies, where a direct relationship is sought between performance pay schemes and organisational performance except around the area of executive pay. In many ways, this is rather strange as the whole long-term purpose of performance pay schemes is to improve organisational performance so why have so few research reports emerged on a conventional, all-employee performance pay scheme? Certainly the measurements are difficult and would be surrounded by a clutch of caveats but the lack of evidence is still rather strange.

A clue could be the almost complete lack of evaluation that takes place on human resource issues. Unlike other disciplines, such as financial investment decisions or marketing, there appears to be a lack of will from both the responsible HR executives (and, one assumes the chief executive) to carry out a detailed, empirical evaluation of human resource initiatives to estimate whether a specific initiative has actually increased profits. This, of course, applies in the reward field and especially in performance pay areas. It is interesting that the 1998 IPD survey reported that 75% of companies carried out no evaluation at all into their performance pay scheme! (IPD 1998). One organisation that made such an attempt was detailed in Swabe (1989) where their objective of constraining pay costs was achieved.

It is, however, possible to clearly identify a failure in a scheme. BT abandoned their particular form of performance pay in 1994 because it 'threatened to undermine the pay bill' (Taylor 1994). In essence, performance pay was adding to the salaries of its managers who were already being paid above the target range in comparison with its competitors.

The American field studies have produced some mixed results. Cowen (1978) found that the introduction of a performance pay scheme produced the outcomes of reduced staff turnover and improved perceptions of the organisation as a high-paying employer. Kopelman and Reinharth (1982) researched schemes in branch offices of a large financial organisation and found that the closer the tie between pay and performance the greater the improvement in performance. This supports the consultancy view that you need a tight 'line of sight' for such schemes to be successful. They also found that the larger the range of possible pay increase, the greater the performance a year or so later.

So it is only in the field of executive pay where a comparatively large body of research has been carried out on the outcomes of performance pay schemes that some conclusions can be drawn. One has to add that the advantage of researching in this area is that the information is in the public domain, thanks to stock exchange reporting requirements and fieldwork is therefore not necessary. A research assistant working in the library on company reports can 'count the beans'.

The results in this area are, again quite cloudy. American research by Milkovich and Gerhart (reported in Milkovich and Milkovich 1992), where they studied the pay of 16,000 top and middle-level managers in 200 organisations, found that a 10% increase in the level of performance pay was associated with a 1.5% increase in return on assets the following year. They also found that the percentage of pay that was variable was more strongly related to profitability than was the level of base pay. In a later publication (Milkovich and Bloom 1995) they went as far as to say that if 48% of managers were on an incentive arrangement that could lift their pay by 20%, then the return on assets would rise by over 7%. The conclusion was that the pay strategy had a strong effect upon subsequent profitability.

Other American research findings are far less conclusive. Gomez-Mejia and Wiseman (1997) have identified over 300 studies covering the previous 70 years, many of which relate to the performance of the Chief Operating Officer (CEO) The results are very mixed indeed. For example, Jensen and Murphy (1990) expressed disappointment at the low pay-for-performance sensitivity of the chief executive's pay and the performance of the organisation. In other words, no matter how well or badly the organisation performed, the chief executive carried on receiving high bonuses. A later survey by Tosi et al (1998) found that less than 5% of the chief executive's pay appeared to be explained by performance factors. Berlet and Cravens (1991) study of executive pay in 163 US companies add to the dismal findings as they found that the relationship between executive pay and company financial performance was virtually random. Even Milkovich had to admit that results were mixed. He found that the pay-performance link was influenced by the degree of business risk. Surprisingly, where the business context was risky, performance pay link did not seem to work well (Milkovich and Bloom 1995).

A UK report (Buckingham, 1998) expressed scepticism at the performance pay for executives. It showed that, under most long-term incentive schemes, directors can expect to pick up the equivalent of 25% of their base salary even if their company only just manages to make it to the midway performance against comparative organisations. She quotes Stuart Bell, research director of Pensions Investment Research Consultants:

'The findings ..(of this research) .. contrast with best practice set out in the current DTI consultative document on directors' remuneration which recommends that boardroom pay should be strongly linked to performance and should be structured in a way that directors have a strong motivation to perform well. Most of the current performance targets do not represent world class performance. Setting the performance thresholds at these levels tells directors that average is good enough. They contribute little to incentivising individuals or enhancing competitiveness.' (p47).

This view is shared by many commentators from the media. A leader commenting on the Guardian/Imbucon 2000 survey (Guardian 2000), pointed out that boardroom salaries increased by 16% which was not a 'reward for exceptional individual performance, since the vast majority of board members share in the annual harvest' (p17). The leader went on to compare Britain's boardrooms with Premiership English football. 'Escalating salaries irrespective of performance, a disregard for public opinion, an increasing number of foreign players and no women' (p17).

Another method of measuring success is to compare performance pay with other management initiatives. Locke et al (1980) examined the effectiveness of four of the most commonly used productivity programmes: pay for performance, goal setting, participation in decision-making and job enrichment. Comparing empirical studies that had been conducted for each programme, they found that the largest productivity increases came with pay-for-performance plans. When pay was provided for good performance, productivity increased on average by around 23%, compared with between 0.5% and 17% for the other three initiatives. However, this research is somewhat dated and refers mostly to traditional manufacturing incentive schemes.

Looking at the whole area of linking the existence of performance pay and organisational performance, a large American survey (CARS 1994) found that organisations with performance-reward plans tend to perform better than their competitors. In detail, they have calculated that companies earned $2.34 for every $1.00 spent on the performance payout. Those with a higher pay-at-risk factor reported higher payouts, improved team working results and a greater impact on workforce output. They also found, however, that introducing such schemes carried risks and 12% had been terminated over the three years period studied and 30% were altered in line with changing business requirements.

Finally, a reminder that advocates of the 'best practice' school have, almost without exception, included performance pay in the list of best practices that their research has shown to contribute to overall high organisational performance. (Pfeffer 1994, Huselid 1995, Storey 1992) although they have not extracted the specific contribution of performance pay.

This mixture of results is a difficult base on which to draw conclusions. Selectivity will inevitably affect the outcomes but the degree of variation is really quite extreme and not easy to explain.

Other Management Measures of Success

Although the information from the 1998 IPD survey (IPD 1998) was not backed by any empirical evidence, it provides interesting information of management's assessment of success under a number of criteria. This is reproduced as Table 5

Table 5 1998 IPD survey

Answers in response to question: What effect do you think your system of performance pay has had on the following:

Effect on:	**Improves**	**No change**	**Worsens**
Employee Performance	74	26	0
Delivering a clear message about the importance of organisational performance	69	27	4
Rewarding employees in a way they think is fair	57	29	14
Your ability to identify and get rid of poor performers	52	46	2
Facilitating change in your organisation	41	54	5
Employee commitment/loyalty	41	53	6
Employee willingness to stay with your organisation	35	60	5
Encouraging employees to suggest improvements and innovation	28	68	5
Effective team working	28	59	13
Curbing trade union influence on pay decisions	14	84	3

IPD 1998, p4

This management response is clear in a number of areas. Performance has improved in most cases and has not declined in any. The communication process is similarly clear cut. Elsewhere, however, it could be regarded as somewhat disappointing, given the nature of the survey (It is not certain whether the survey was anonymous – this could influence the degree of support for their own scheme registered by the respondent.) For example, one would have expected a very high response to the question on identifying poor performers as this is a major objective of most schemes. It is also a less than convincing response on facilitating change, despite the positive response on communicating the importance of organisational performance. Loyalty and retention reports are luke-warm while the issue of the conflict between individual and team working is set out in stark relief. When these results are broken down into public and private sector organisations, the public sector clearly shows a poorer result. In the area of the employer's perception of the employee's perception of fairness (It is not clear on what they base this information) 21% of public sector respondents believe that a deterioration has taken place compared to only 10% in the private sector. Similarly, performance improvement overall is less in the public sector as is the encouragement of employees to suggest improvements and innovations (p6).

On the other side of the coin, only 10% of all respondents are planning to abandon their scheme altogether, indicating that, for 90%, it must contain value to the organisation in some form or other. Again, one must stress that this was a response from HR practitioners who will have a considerable interest in the success of their current scheme.

Overall, the research evidence of the returns to an organisation for investing in a performance pay scheme is equivocal. On the positive side, performance pay schemes in America have consistently given a fair relationship between employees' performance and their pay. (Daley 1987, Schay 1988). A number of studies have also shown that performance pay schemes are positively related to employees' satisfaction with pay or their job. (Miceli and Near 1988, Bullock 1983) This must be put alongside most of the examples already given in some detail of UK research where most employees have either a negative or neutral opinion of the value of the performance pay scheme.

This chapter has examined research on the success or otherwise of performance pay schemes. In general, the conclusions from organisations is that they are successful. That is why most of them continue, sometimes with major revisions. However, schemes that have been abandoned are rarely reported or researched. Where they are reported, such as a scheme in a Midlands Local authority (Stredwick 1997), the reason for its abandonment was the reduction of funds available when the recession took hold, rather than an inherent fault in the scheme itself. Certainly the management views reported in the IPD research indicate considerable success for the organisation. Objective measures, as pointed out at the beginning, are more difficult to obtain.

2.5 Conclusions on Literature Search

The literature search has examined a wide range of issues relating to performance pay and the research questions. It has been made clear that there are varied and ambitious objectives for performance pay schemes, drawing on motivation and human resource theories. The measures of success, however, are difficult to justify and few organisations attempt to carry out an effective evaluation.

Schemes are opposed from a variety of standpoints, including both practical and philosophical. A set of hypotheses has been developed from this model that cover the outcomes of performance pay which are summarised in Table 6. They deal with the issues of fairness, morale and commitment, motivation, cultural change, retention, employee characteristics and team working. The next chapter covers the methodology involved in attempting to test these hypotheses.

Table 6 Research Questions and Hypotheses

Research Questions	Hypotheses
What are the reasons for organisations to introduce performance pay	No hypothesis
Does the introduction of performance pay lead to a fairer system of pay distribution	**Hypothesis one - FAIRNESS** That performance pay contributes to the objective of distributing pay increases in line with employee contribution.
Does performance pay increase the level of employee morale in the organisation and thereby the commitment of employees	**Hypothesis two – MORALE AND COMMITMENT** That performance pay contributes towards the objective of increasing employee morale and commitment
Does performance pay help to motivate the workforce towards a higher level of performance and productivity	**Hypothesis three - MOTIVATION** That performance pay contributes to the objective of motivating the work force
Does performance pay help to change the culture of the organisation so that it becomes more geared to improving performance	**Hypothesis four – CULTURE CHANGE** That performance pay contributes to the objective of instilling a positive message about performance expectations and the achievement of company objectives which is recognised by the employees as a culture change
Does performance pay assist in retaining employees	**Hypothesis five – RETENTION/LOYALTY** That performance pay contributes to the objective of offering a competitive salary and benefits package in comparison with rival companies in order to reduce staff turnover and attract a higher calibre of staff.
Does performance pay, paid individually, harm or hinder team working	**Hypothesis six – TEAM WORKING** That paying performance pay on an individual basis works against the concept of team working.
	Hypothesis seven – EXPECTATIONS AND REALITIES That experience of operating a performance pay scheme has a negative effect upon employees' perceptions of the scheme, compared with their expectations at the time when a scheme is introduced.
Is it possible to identify employees by specific characteristics who may be more positive or negative towards performance pay	**Hypothesis eight – EMPLOYEE CHARACTERISTICS** ***Sub-hypothesis 8a – Trade union membership*** That there is no difference in perception of performance pay between trade unionists and non-trade unionists. ***Sub-hypothesis 8b –Gender*** That there is no difference in attitude towards performance pay between men and women. ***Sub-hypothesis 8c – Age*** That the age of the employee does not affect the attitude towards performance pay ***Sub-hypothesis 8d – Level of seniority*** That the seniority of an employee does not affect the attitude towards performance pay. ***Sub-hypothesis 8e – Employee rating*** That the personal ratings obtained under the scheme do not influence the attitude towards performance pay. ***Sub-hypothesis 8f – Length of service*** That the length of service of the employee does not influence the attitude towards performance pay. ***Sub- hypothesis 8g – Position in grade scale*** That the position in the grade scale does not influence the attitude towards performance pay.

CHAPTER 3 METHODOLOGY

3.1 APPROACH TO CURRENT RESEARCH PROJECT

The research method chosen was positivist-related with a single case study examined on a longitudinal basis, supported by evidence gathered from two additional case studies. The difficulties in adopting a positivist approach were recognised, such as low validity (Hussey and Hussey 1997), the doubts over causality (Milkovich and Milkovich 1992) and the problem of isolating variables (Heery and Warhurst 1994). However, the method was preferred over a phenomenological study which would lack empirical evidence, and which is liable to have selective findings, while often gathered together in a haphazard fashion to give credence to a fixed viewpoint.

Data was obtained chiefly through an employee survey. The author accepted the viewpoint of Arrowsmith et al (2001) that:

'Some may think that such surveys are a dubious basis for evaluation, generating as they do subjective attitude data rather than objective performance data. This is, however, a widely used procedure........ and until there are objective measures of performance it seems to be the best that can be done' (p116)

The organisation chosen for this thesis matched the portrait of a large organisation faced by the modern challenges of rapidly changing technologies, shorter cycle times and ever-demanding customers as detailed in the introduction to this thesis. This ensures that the research was relevant and topical. It would also fill the gap of a UK longitudinal survey in this subject area which is currently lacking.

The primary research was supported by two cases where the organisation's underpinning philosophy and strategy on reward management was examined to understand better the reasons for the introduction of performance pay. The combination of these methods ensured a degree of triangulation.

In the case of Telecoms, information in addition to the questionnaires was gathered through a selection of sources. Two extended interviews were held with the personnel Director, principally concerning the initiation of the performance pay scheme and the reasons the scheme in question was chosen. Twelve discussions took place with the Human Resources Manager and with the Human Resources Officer concerning the operation of the scheme and the organisation scenario. Meetings took place with a further 14 employees involved in the scheme; two of whom were managers, three were supervisors and the remainder a mix of administrative and installation employees. They were chosen at random by the human resource manager and took place in the period between the two questionnaires. These meetings varied in length from ten minutes to 45 minutes It was not intended that the interviews would yield empirical evidence but the aim was to achieve greater understanding of the differing viewpoints of the participants. The interviews took place in private. There were a number of opportunities provided on the questionnaires for employees to give their personal views. The fact that they did so in strong measure indicates the strength of feeling from many employees. One can almost hear them talking when reading their comments.

A different methodological approach is made in the two prongs of the research. The next two chapters show how each approach took place.

3.2 Methodology Specifics - Telecoms

Choice of organisation

In the introduction, six major changes that had a considerable affect upon modern organisations were described and it would be appropriate to choose an organisation for closer study which mirrored such changes. Telecoms was chosen for this reason. In terms of globalisation, it was jointly owned by British and German multinational companies and worked in a global market place. Telecommunication technologies have been subject to increasingly fast movements and the cycle times for systems have become much shorter. In fact, the organisation can be said to work on the leading edge of technology. Due to the competitive market place, customers can truly be said to be 'ever-demanding' as will be seen in the chapter dealing with the introduction to the organisation, where the requirements for installation and operation were becoming increasingly tight. The organisation had, shortly before the research began, introduced a set of informal 'competencies' arising from their corporate values and were introducing substantial changes in the way that employees operated, such as annualised hours.

Moreover, Telecoms appeared to have an integrated approach to business strategy, human resource management and reward management. There was also a clear line of sight between business strategy and the introduction of the performance pay scheme. Access for a longitudinal study with two questionnaires was available.

For all these reasons, Telecoms fitted the research requirements for the study

Methods of testing the Hypotheses

The methodology took courses of action. This involved the design and analysis of two completed questionnaires, which are set out in Appendix A and B. They were issued to a stratified sample of employees within one organisation based in Luton.

Stratification was chosen as a sampling method to ensure that the sample was more closely representative of the population rather than using a simple random method, given that questionnaires could not be issued to all 1000 or employees, for reasons of cost, ability to process and organisation access (Rosenfeld et al 1993). In the view of Gihari et al (1995)

' Stratified random sampling can give higher precision with the same sample sizes or, alternatively, the same precision with a smaller sample. Stratified sampling can give separate results for each structure and it simplifies data collection' (p67).

The starting point for the design of the questionnaire was that constructed by Thompson (1993) in his survey of performance pay in three major organisations. The aim was that results from the questionnaire would allow direct comparisons for a number of substantial sections. The comparisons are explained in the chapter on Findings. However, upon insistence of the human resource director of Telecoms, the questions all had to be formulated in a positive way, unlike Thompson's, where a number of the questions were of the reverse type. This change could have influenced the *response style* of the sample. A response style, according to Klimoski (1991) is:

'.. the tendency by a respondent to choose a certain response category regardless of the item's content. Acquiescence response styles are characterised by persons who indicate a positive response to all statements in the scale. Sometimes the yea-sayers are distinguished from the nay-sayers who indicate a negative response to all questions' (p145).

The most frequently recommended way to minimise this response set is to word some items positively and to word others negatively (Converse and Presser 1986). This supposedly forces the respondents to read all the items to discern their negative-positive nature and, hopefully, their content. However, work by Schmitt and Stults (1985) drew attention to the fact that this practice may not work as intended in that the random reversing of questions can cause confusion and boredom resulting in contradictory returns, especially where the questionnaire is long and complex.

There is no doubt that having all questions phrased in a positive or negative way provides ease of response for the recipients. It may, of course, provide a degree of polarisation, especially in the more negative of the responses. Klimoski (1991) recommends that the most effective way of avoiding or minimising this type of response bias is to maintain the motivation by keeping the questionnaire short and relevant.

A second difference between the questionnaires was that there were more questions included relating to the effect of performance pay on team working.

Both questionnaires followed the prescriptions of Czaja and Blair (1996) based on the work of Dillon (1978) in terms of, amongst others, logical progression, clear and unambiguous questions, free from jargon, avoiding 'leading' questions and appropriate length.

The questionnaire was *piloted* with two groups of students at Luton Business School in. One was a group of Human Resource students and another was a group of

Diploma in Management Studies students. This pilot led to a change in wording for a number of questions, a reduction in the total number of questions and a change in order of some of the chapters, together with a few minor modifications.

It would have been preferable to carry out a pilot at another establishment, as recommended by Yin (1994) who considers that 'the pilot case study can be so important that more resources may be devoted to this phase of the research than to the collection of data from any of the actual cases' (p74).

The first part of the study was carried out in 1994and consisted of a 3-part questionnaire (see Appendix 1) issued to 20% of the Telecoms employees covering the whole country (excluding the sales force) This had a return rate of 55% giving 105 usable questionnaires. The stratified sample matched the Company's employee structure. The first section asked for ratings and views on the briefing on the new performance pay scheme by management. In the second section, a 7 point Lickert scale was used to ask employees the extent to which they agreed with a list of statements (ranging from strongly agree - rank 1 to strongly disagree - rank 7) concerning their expectations of the scheme. The third section identified personal characteristics of the respondents, such as age, union membership and job grade.

The second part of this longitudinal study was carried out in 1995 after the scheme had been operating for approximately a year and the first payments had been announced. It consisted of a questionnaire (see Appendix 2) with a similar structure, again issued to 20% of the employees. The samples were not identical employees but the analysis of their characteristics was almost identical in the form of a matched sample. The return rate was slightly higher at 58%, giving 119 usable questionnaires. The first chapter of the questionnaire asked for ratings and views on the following areas:

(a) The performance management system that underpinned the performance pay scheme.
(b) The outcomes for the individuals including the ratings and salary increases.
(c) The method of communication of the outcomes.

The second section dealt with the matching set of questions on the Lickert scale as in the first questionnaire with expectations changed to realities. Two additional aspects of employee's perceptions were investigated in this second questionnaire. Firstly, a question was asked dealing with the option of returning to the old salary structure. Secondly, the questions on team working were made slightly more pointed and specific. The third section repeated the personal characteristics identification method. Opportunities were given to the respondents to comment in various chapters on particular aspects or on the scheme in general. A very large number of comments were made and few questionnaires were received without one comment or another.

The questions were grouped into several scales (details are shown in chapter 3.3) relating to the hypotheses. They followed, in general, Thompson's divisions although there were some adjustments, which took into account the views of the organisation and the need to keep the questionnaire length within reasonable bounds.

Additional gathering of evidence

Alongside testing these hypotheses, additional important areas investigated included:

- Employees' detailed perception of the scheme itself, of the method of introduction and of the performance management system that underpinned the payment scheme
- The effect of age, sex, job level, union membership, length of service and satisfaction with briefing on the employees' perception of the scheme and its effectiveness.

All of these investigations add to the limited UK research evidence in these areas.

3.3 Reliability Analysis

The questions in the main body of the questionnaires were grouped into clusters of items dealing with similar issues relevant to the specific hypotheses and a Reliability analysis (using SPSS) was conducted to generate a statistic on each scale. This is called the alpha coefficient, which is a measure of the internal consistency of the scale. It is generally recommended that a scale should have an alpha coefficient of 0.7 or greater if it is to be used in comparing groups of respondents (Thompson 1993).

The scales used and the alpha coefficient for the combined answers from both questionnaires are shown in Table 7 with appropriate comments on each scale results.

Table 7 Reliability analysis

Scale 1 FAIRNESS ALPHA = 0.91		
Before	**After**	
Q14	Q19	I believe that the performance standards against which I will be (I am) measured are relevant to my job
Q17	Q22	Performance pay will be (has been) implemented fairly in my department
Q25	Q30	My Performance pay targets are objective and measurable
Q26	Q31	The performance measures under which I will be (I have been) assessed are realistic and achievable.
Q32		The Job Grading exercise was carried out fairly
Q35	Q40	My manager will know (knows) enough about my work to give me an accurate assessment.

Notes

- Question 32 was only asked in the 'before' questionnaire. The justification for this action was that it, if it were to be asked in the second questionnaire, it would be some time distant in the employee's memory (around 18 months). In retrospect, this could be regarded as an error. Major decisions, such as job grading, probably do not fade from employees' minds and it would have been interesting to examine if, in retrospect, the perceptions of fairness in regard to the job grading exercise improved or deteriorated over time.
- The Alpha coefficient of 0.91 showed a very high degree of reliability

Scale 2 Relationship with Manager Alpha = 0.81		
Before	**After**	
Q10	Q15	I am confident that my manager will take (has taken) the Objective setting very seriously
Q11	Q16	My manager is good at giving me feedback on my performance
Q20	Q25	My performance pay targets are objective and measurable (My manager has measured my performance effectively)
Q31	Q36	I expect to receive (I receive) regular feedback from my manager concerning my progress towards agreed targets and objectives

Notes

- The Alpha Coefficient at 0.81 showed a high degree of reliability.
- With questions 31/36 excluded, the figure would have risen to 0.85 indicating the wide variety of response on the issue of *regular* feedback and the major

differences between what was expected and the reality of the first years' operation.

Scale 3 Motivation Alpha = 0.93		
Before	**After**	
Q7	Q12	Performance pay will give me (has given me) a greater incentive to get my work priorities right
Q8	Q13	Performance pay will give me (has given me) the incentive to work beyond the immediate requirements of the job
Q13	Q18	Performance pay will raise (has raised) motivation in general
Q16	Q21	Performance pay will increase (increases) the quality of employees' work
Q23	Q28	Performance pay will encourage (has encouraged) me to give a sustained performance at work
Q29	Q34	Performance pay will raise (has raised) my motivation at work
Q30	Q35	Performance pay will help (has helped) employees' morale in general

Notes

- Another high alpha coefficient at 0.93 indicates a very high degree of reliability consistent across all the questions

Scale 4 Culture Change Alpha = 0.60		
Before	**After**	
Q21	Q26	Performance pay will help (has helped) to change the culture of the Company for the better
Q27	Q32	Performance pay will stimulate (has stimulated) more discussion between managers and employees regarding performance

Note

- This is a poor alpha coefficient indicating a low degree of reliability. The fact that there were only two questions asked can have an effect on the reliability especially if they approach the subject from different viewpoints. The first question (21/26)is a direct question on culture but the second one (27/32) is directed at the communication issue. It can be argued that the improvement in communication processes so that it becomes freer and more open is a strong indicator of a changed culture. This is certainly what the company is hoping and expecting. However, such an improvement in the context of a performance management process can also be regarded as a function on the individual relationships with managers and this may dilute the response in terms of a cultural change. In other words, Q27/32 could have been included in Scale 2 instead. (Interestingly, the mean scores for this question are almost exactly the mean overall score for the Relationship with Manager scale) It has to be said that the reliability score does throw some doubts on conclusions that could be drawn over Hypothesis 4 concerning cultural changes.

Scale 5 Scale of Payment		
Before	**After**	
19	24	I believe that the financial incentive of PERFORMANCE PAY is too small to motivate employees

Note

- As this was a single item, an Alpha cannot be calculated.

Scale 6 Satisfaction with Pay		
Before	**After**	
18	23	My existing pay is a fair reward for the work I do

Note

- As this was a single item, an Alpha cannot be calculated.

Scale 7 Principle of Performance pay Alpha = 0.59		
Before	**After**	
9	14	(I have found that) The principle of relating pay to performance is a good one
34	39	Performance pay will mean (has meant) that good work is recognised and rewarded

Note

- Only two questions came in this scale, the same as in the Thompson (1993) questionnaire. The first question is very clear and to the point. The second was inserted as a reflection of the principle without stating it. In retrospect, the second question refers more to the practical implications of performance pay and what it has meant in that particular organisation, rather than talking about the principle in isolation. For an individual, whether one holds a principle or not is influenced by the experience of the implications of operating that principle in practice, but it is still possible to remain steadfast on a principle although realising that it may not be appropriate in practice. This would explain the variations in the answers on this scale and the poor alpha result.

Scale 8 Team working Alpha = 0.61		
Before	**After**	
12	17	It will be easier to work together with other employees if we receive the same rewards under performance pay (The performance of the team would improve if we were all paid an identical sum of money under performance pay rather than different individual payments)
15	20	It is important that performance pay rewards my individual contribution
22	27	There is no clash between performance pay rewarding me as an individual and getting me to work together with the rest of the team.
24	29	It is important that performance pay rewards good teamworking as one of its objectives
28	33	Performance pay will foster (has fostered) good working relationships with other members of the department team.
33	38	Performance pay will help (has helped) the department to work together as a team

Note

The alpha result provides some apparent lack of reliability. This is partly because of the contradictions in employees' attitudes towards teamworking and pay that will be explored later and partly because of the insertion of statement 15/20. It could be argued that this statement should have been phrased in the negative form in the sense that paying for the individual contribution is the opposite of paying for the team contribution. If it had phrased in the negative format (It is not important that my individual contribution is recognised), then it is highly likely that the result would have be an average score in the region of 4.00, although this is conjecture. With such a result, the Alpha score for this scale would have risen to 0.70.An alternative approach is to treat this question as a reverse one and calculate the Alpha score appropriately. Taking this approach, the Alpha score calculates as 0.69. The alpha score here reflects the apparent contradictions and also the variety of conflicting responses from individuals, some of whom are in favour of both individual performance pay and team working – a circle that is difficult to square. These aspects are discussed further in the analysis of results.

3.4 Methodology Specifics –Case studies of Merck, Sharp and Dohme and David Webster Group

As the ancillary part of this research, studies were made of organisations that operated different types of performance pay schemes. These organisations were chosen as they operated in different sectors, and provided a variety of performance pay schemes. The first organisation was faced by the changes detailed in the introduction – globalisation, ever-demanding customers, changing technology and shorter cycles, new competencies and changing employee methods of operation. In the case of David Webster group, globalisation and shorter cycles did not apply but the other facets were present.

The information for these case studies came from a number of sources. The author had worked as Head of Personnel for the David Webster group from 1989 to 1992 and was deeply involved in the reward strategy. Information on the performance pay scheme was gathered during this period through many meetings with street lighting operators, their supervisors and managers of the 13 depots. Observations took place on more than 20 occasions during this time, the author spending a total of five complete days assisting the crew as part of his orientation programme. The author attended negotiating meetings with representatives of the operatives on five occasions. He also helped to set up training for new operators on the workings of the performance pay scheme, especially when new contracts were won and schemes appropriate set up. The updated information for the publication was obtained through a series of interviews with the Chairman (David Webster) and the Managing Director, supported by documentation over a number of years.

In the case of Merck, Sharp and Dohme, the data was gathered through a series of six interviews with the Human Resources Director and the Manager, Compensation and Benefits, supported by a considerable amount of internal documentation.

The main area examined in this part of the research relates to the objectives of introducing performance pay. Multiple case designs have distinct advantages in comparison with single-case designs (Yin 1994). The evidence from multiple cases is often considered more compelling and the overall study is therefore regarded as being more robust. The benefits of the replication of results are also recognised (Hersen & Barlow 1976).

CHAPTER 4 – FINDINGS 1 Objectives of Performance Pay - Cases

Findings have been divided into two sections. The first part (Chapter four) examines the reasons why organisations have introduced performance pay. Here, the main case study, Telecoms, has been augmented with two further studies, namely Merck, Sharp and Dohme and David Webster Ltd. The reason for choosing these organisations will be given first followed by a short background to each of these organisations in 4.2 to 4.4. The chapter will conclude with an analysis relating to research question one, the objectives of performance pay. The subject of the second part of the findings (Chapter five) is an analysis of the quantitative data from Telecoms addressing the research questions two to eight.

4.1 Justification for choosing these Cases

Each of these cases has a strong bearing on the introduction and operation of performance pay as part of a coherent reward strategy. The Merck, Sharp and Dohme case shows how the traditional job-evaluated salary structure for managers had to change to a more flexible system, incorporating broader salary bands and where performance had a far greater influence on salary determination. Here, the influence of 'New Pay' (Shuster and Zingheim 1992) thinking was evident. In the David Webster case, the introduction of new styles and systems of performance pay is at the heart of their human resources strategy and, in fact, has a considerable influence on their profitability and ability to win work from the public sector. For Telecoms, the introduction of performance pay was part of a raft of human resource initiatives introduced to support the organisation's drive to successfully meet the demands of a rapidly expanding market in telecommunication services.

The cases chosen operate in the manufacturing sector (Merck, Sharp and Dohme) and in the service sector (David Webster and Telecoms) while the latter organisation represents the SME sector compared with the larger operations of the former two organisations. Taking the three case studies together gives a broad and varied view of the role of performance pay and has supported the concept of multiple sources of evidence (Yin 1994).

The first two cases have been the subject of published articles and the full text has been set out in Appendices 5 and 6.

4.2 Background to the cases

4.2.1 Merck, Sharp and Dohme

Merck, Sharp and Dohme Ltd is a wholly-owned subsidiary of the US based company, which is one of the world's leading pharmaceutical companies operating in every major market throughout the world with a very strong market position in Europe. There are around 1,500 UK employees in a number of sites with the Head Office based in the Home counties. It is not unionised, although joint consultative committees discuss points of mutual interest.

In view of the huge sums invested in research and development, centralised control is more common in the pharmaceutical industry and this has been reflected in company policy on reward management. Together with training/development, Merck,Sharp and Dohme has always regarded reward systems as key areas of human resources and has put them at the heart of their integrated corporate systems. Employee appraisal, job evaluation and pay determination mechanisms are established at the US headquarters and cascaded through the various subsidiaries world-wide. Therefore, managers operating in, say, France have been appraised and rewarded under the same system as in the UK.

For over 20 years until the mid 1990s, the main determinant of salary levels was the Hay job evaluation scheme but successive audits of the scheme's operations in the early 1990s showed that difficulties related to the application of the scheme had begun to surface. There were two main problems. Firstly, it was becoming increasingly difficult to align the scheme successfully across America and Europe. During the 1990s, the economic circumstances in America had been markedly different from Europe. Their recession had been earlier and was not so deep as that occurring in Europe. Even within Europe at that time, economic circumstances varied greatly between, say Britain, where unemployment had been rising steeply for two years, and Germany where their steep rise had yet to begin. These differences, accentuated by currency fluctuations, were reflected in the job market and the salaries required to attract the right calibre individuals. It was becoming impossible to encompass all of these varying cases in one all-embracing scheme.

Allied with this problem in the operational and administrative grades was the problem of work flexibility. As employees' jobs were increasingly being stretched due to reduced headcount, team working , mechanisation and computerisation, the rigidity of the Hay evaluation scheme was placing strains on work patterns. There was also a growing demand for re-evaluation of jobs which was proving unsettling.

The final problem was the growing difficulties of switching jobs. The era of de-layering had started (although on a low-key basis) and some employees whose jobs had been redefined or re-engineered, were being offered alternative jobs. More commonly, employees developing their careers were considering and being offered jobs seen as 'lateral' moves by the company. In a number of cases, employees were refusing jobs that carried fewer Hay points (say, from 588 to 571) even though the salary and other benefits were identical or even better. The rigidity of the Hay scheme became a barrier. Problems with international transfers between America and Europe or within Europe came into the same category. When the market pressures were added to these problems then it became impossible to operate an efficient salary structure inside a narrow banded scheme

The outcome was the replacement of the centralised Hay scheme with a much looser and locally determined broad-banded salary structure in 1994. Rather than salaries being increased due to service or job design changes, the movement of an individual's salary up the salary band became determined by the performance of the individual, as measured by a new performance management system. This emphasised the adoption of company-specific skills and competencies as well as the achievement of individual objectives.

Additional incentives that have been put in place are an annual bonus, arising from a 'pot of gold', a system described in chapter 2.3.4. The amount of money available was determined by the Board, in line with the overall organisational performance. The sum of money was then cascaded down to the operating companies and units and distributed according to the individual's performance, based on the ratings provided by the performance management scheme. The employee guide to this scheme makes it clear that the criteria for bonus distribution within one unit may be different from another unit because each will have different business requirements.

The second incentive method is that of stock options, an area which has been discussed only in passing (Section 2.4.5) in this research. The organisation saw this method as one that increases the employees' commitment to the organisation which will apply as long as the stock continues to rise in value over the medium and long term. They 'align individual employees more closely with the company's corporate goals no matter how far removed they may feel that their contribution to these goals may be' (MSD 1994, p8).

The case demonstrates a major switch from a traditional reward policy to one that is geared to rewarding performance.

4.2.2 David Webster Ltd

David Webster Ltd was founded in the early 1960s as a street lighting contractor in a buy-out by David Webster from a family connected building contracting business. Its early years were spent erecting new street lighting units for a number of Councils but, in 1966, the company won the first contract awarded to a private contractor to maintain the entire street lighting for a local authority (Hatfield District Council) which was extended soon after to the whole of Hertfordshire.

By the time the Compulsory Competitive Tendering (CCT) legislation was passed in the 1980s, the company had grown to 200 employees with a turnover in excess of £10 million. CCT provided the opportunity to tender for contracts on a nation-wide basis and a number of substantial contracts were won, doubling the size of the organisation by the early 1990s.

From very early days David Webster had realised that the traditional local authority pay system operating *prior* to the introduction of CCT was inappropriate for his method of operation. Under the local authority system, terms and conditions were negotiated nationally by local authority unions to cover a wide range of employees in a variety of services. In the interests of equity, employees working in street cleaning, cemeteries, grounds landscaping, etc. would be on the same conditions and their pay would be determined by the national grading system. Hours of work, breaks, allowances and manning levels were closely prescribed. Overtime was endemic.

Supervising the work and verifying the reasons given for poor performance was not easy, as the operatives were spread over a wide area and often without communication to their base. *Bonus schemes* were occasionally tried by some authorities but were generally unsuccessful due to slack targets arising from tough union negotiations, disputes over allowances and the causes of delays and faults, the attraction of overtime vis-à-vis bonuses and artificial bonus ceilings.

Schemes were therefore difficult to agree, difficult to operate fairly, open to manipulation and unlikely to motivate. It was clear to David Webster that a system where lighting operatives were working on fixed hours, to a flat wage, with a fall back overtime system and a closely defined job met only the requirements of the routine, predictable operations of a closed community. It did not fit the requirements of the flexible, profit-seeking, CCT environment in which David Webster worked.

A new performance pay scheme was implemented in the late 1970s to remedy these faults. This gave the opportunity to earn very high performance pay but basic rates were reduced and fixed hours of work, overtime and allowances were abandoned. Individuals and teams earned bonuses by reducing the time and cost of carrying out work. They can achieve this by organising their time and energy more effectively

A summary of the differences between the David Webster Ltd scheme and a typical local authority arrangement is shown in Table 8.

Table 8
Comparing traditional Local Authority terms and conditions with David Webster scheme

TRADITIONAL WORKING PRACTICES	DAVID WEBSTER SCHEME
Fixed hours of work	No fixed hours
Fixed loading and unloading times	No loading or unloading times
Fixed breaks	No fixed breaks
Two men teams	Team size to fit job requirement
High basic wage	Low basic wage
No bonus scheme	Bonus scheme a key factor
Overtime endemic	No overtime
No movement between contracts	Movement between contracts as required
No penalties for poor quality	Penalties for quality
Generous sick pay	Limited sick pay
Involvement limited	Involvement crucial
Just a job	More like a small business

4.2.3 Telecoms

Telecoms is a major player in the sales and service of communication technology , including telephone, fax, voice data and video-conferencing both in the UK and abroad dealing with around 40,000 customers. 1200 staff were at the time employed throughout the UK with the Head Office in the Home Counties. It was jointly owned by two multinational publicly quoted companies.

The company was formed as a result of a number of mergers over the last 10 years and, by 1994, had the experience and expertise of a number of companies brought under one name but with very different styles and cultures. At that time, it recognised that morale amongst employees was low. This came about for a number of reasons:

- Resulting from the mergers was a series of redundancy exercises , some of which were compulsory leaving a strong element of survivor syndrome
- In 1993, the company appointed a new Managing Director who implemented a number of significant strategic directional changes, unsettling employees , particularly those with long service.
- The recession had taken its toll in the business area resulting in the company posting a loss in 1992 and 1993. Pay increases in these years were minimal.

- During the period of the mergers, there had been some informal and unpredictable rationalising of terms and conditions where some long-standing benefits had been removed in what was regarded as an arbitrary fashion.

Recognising this situation, the Board instituted a set of fundamental changes in the human resources area, enshrined in a new set of values easily recognisable in human resource management terms.

* The customer comes first
* Total commitment to quality
* Empowerment and responsibility
* Teamwork makes a winning team
* Communication is open and honest
* Recognition and reward for individual merit

To drive these values home, a number of initiatives were implemented. Customer Care courses were undertaken for all staff. Sales and service support staff were interchanged so a mutual understanding of their needs were achieved. BS5700 accreditation company-wide was achieved. Company communications were overhauled to improve the system of direct communication. Employee attitude surveys were instigated. A further reduction in managerial/supervisory jobs took place associated with the creation of empowered work-teams who would take over some of the planning and quality roles previously undertaken by managers and supervisors.

In view of the losses incurred in previous years and the increasingly global competitive nature of their business, the overall improvement in employee performance was seen as the most major priority. An effective pay system was seen as the reinforcer of this concept which would need at its heart firstly, a revamped job evaluation scheme encompassing all employees, secondly, a revised and robust performance management scheme based on the new values and finally a form of performance pay. The job evaluation process took place during the early part of 1994 and integrated a set of overlapping and contradictory grading structures in the pre-merged companies into one broad-banded nine grade structure covering all employees below board level. Allowing for appeals (which were few) this was introduced by the middle of 1994 with general acceptance.

The objectives that the executive management team (including the head of human resources) set for the performance management system and performance pay when formally introducing the scheme were as follows:

Objective 1	To distribute pay increases in line with employee contribution
Objective 2	To increase employee morale and commitment
Objective3	To motivate the work force by letting them have influence over their achievement of targets and thereby having an influence on their financial rewards.
Objective 4	To instil a positive message about performance expectations and the achievement of company objectives for the good of all thereby making employees feel more secure with the company.
Objective 5	To focus attention on increased company results and profits.
Objective 6	To offer a competitive salary and benefits package in comparison with rival companies in order to reduce staff turnover and attract a higher calibre of staff.

4.3 Case studies and the Objectives of Performance pay

4.3.1 Introduction

Each of the case studies has utilised reward strategies to help the organisation to achieve its business objectives, including the need to encourage behaviours such as increased flexibility, acceptance of more risk and becoming more customer-oriented. Both Merck, Sharp and Dohme and David Webster Ltd. have moved away from well-established 'best practice' job evaluation systems to more fluid contingent pay systems which provide a better 'fit' for the organisational needs.

4.3.2 Operational Objectives

Control

In the case of David Webster Ltd, one of the major aims of introducing the bonus scheme was to produce tight individual control over the employees. In a typical local authority scheme, work would be allocated to the employees, but they could produce any number of excuses why that work was not completed, such as bad weather, difficult environment or the complexity of the jobs. The more the jobs were strung out, the more opportunities for overtime presented themselves. It was not easy for management to counter their claims by detailed inspection of each of the jobs without excessive costs and time, as the jobs could stretch over 150 miles in a day.

Having a bonus payment for each job allowed increased control to be operated. Moreover, if work was claimed that was not, in fact, carried out (such as cleaning and basic maintenance) then this became a more serious offence under the incentive scheme. Employees were, clearly, obtaining money (bonus) dishonestly and would be dismissed. Without a performance pay scheme, if work was claimed by the operative that had not actually been carried out, it could be regarded more as a clerical error and would be likely to be forgiven more easily. Experience showed that the number of complaints from customers over work charged by David Webster Ltd that had not been carried out dropped substantially once the bonus scheme was introduced. It was simply not worth the risk to the employee to get their facts wrong or to make fraudulent claims.

Employees do not always take kindly to methods of control. In their summary of research into real work practices, Noon and Blyton (1997) have analysed the four main methods employed by alienated employees to regulate the work practices and reassert control over their working day. The research described in these 'survival strategies' (p 140) are divided into 'Making out' (manipulating he incentive scheme, taking unofficial rests, see Burawoy 1979), Fiddling (petty pilfering, inventing expenses and cheating in incentive schemes - See Mars , 1982, for his imaginative typography of Donkeys, Wolves, Hawkes and Vultures in this context), Joking (with colleagues and against management, see Spradley and Mann 1975) and Sabotage (stopping assembly lines, damaging stock, ensuring the need for additional re-work and overtime, see Taylor and Walton 1971).

One notable element of detail at Merck, Sharp and Dohme is the control exercised through the underpinning performance management scheme where there is a 'fixed distribution' of ratings. Managers have to divide employees into a 'TF' group (top five per cent), 'TQ' (top quartile), and 'LF' (lower five per cent). This system identifies and differentiates the weaker performers, providing information that may not be forthcoming without such forced choice, given management's known preference towards the centralist tendency. The element of control is that the organisation can use such information in decision-taking for such areas as transfers, redundancy and career planning.

Communication

For all three organisations, the performance pay system provided a vehicle for communicating the organisation's strategic intent. At David Webster Ltd, this is demonstrated in the whole process of contract awarding and operation. The awarding of contracts was subject to intense competition and the prices and systems of operation were unique to each local authority contract. When contracts are won, the performance pay system was adjusted to the needs of that contract and the prices agreed for specific tasks with the authority, such as lamp erection, cleaning and basic maintenance. This was then communicated to the employees within the short window of time available (2-4 weeks) between the contract success announcement and the commencement of the contract. The communication process was intense and involved a certain degree of minor negotiation over detail. To the employees, the needs of the contract were of considerable interest as it needed to operate well from the start to create a base firm base for winning the renewal after two to six years and because it provided the base for the construction of their potential earnings. The link between the performance pay scheme and the organisation's objectives of operating effectively and retaining the contract was therefore quite clear.

Within Merck, Sharp and Dohme, the communication of the reward strategy and the specific incentive arrangements were part and parcel of the communication of a revised global strategy. From thinking globally and acting globally, the transition has moved to thinking globally and acting more locally. The importance of this revision is demonstrated in the production of a communication document called the 'Reward handbook', which sets out the reasoning behind the reward strategy and how it operates in detail. The workings of the incentive packages are clearly shown in the document, where the emphasis on linking individual reward to team and organisational performance is clearly communicated.

For Telecoms, there was a clear indication of top-down communication by focusing attention on increased company results and profits (objective five) and by ensuring that the new values are embedded in the performance management system.

Recruiting and retaining employees

For Merck, Sharp and Dohme, the changeover in their reward strategy, especially the move to broad-banding, was made to ensure an improved career development path for employees and to try to stop them moving on. The performance pay element plays a part here, if perhaps of less importance. Firstly, the effect of stock options makes them work as a form of 'golden handcuffs' as the options can, of course, only be exercised by employees, not ex-employees. Secondly, the annual payment based on organisational performance has a marginal effect in stopping employees leaving during the year, although there has been a certain exit of employees after the bonuses have been announced and paid. The organisation was clearly aware of these considerations:

'By providing a competitive compensation opportunity compared to other companies. MSD aims to attract the best available talent .... and keep the good people we have' Pay, Bonus and Stock Options: an Employee Guide (1994) p6.

Certainly for David Webster Ltd, the operation of the bonus scheme is seen as a device to encourage employees to join and to stay. Where contracts are won from existing Local Authority Direct Work forces, those employees have the right under TUPE (Transfer of Undertakings Protection of employees regulations) to be offered a position with David Webster Ltd on their existing terms and conditions which cannot be altered for some months. The policy of David Webster Ltd is to offer such employees the choice to continue under existing conditions, (which tend to be the traditional terms or those agreed by national agreement) or to transfer to the David Webster Ltd scheme of working. The Chief Executive provided information to the effect that 85% of such employees agreed to change over within three months of transferring to David Webster Ltd, even to the extent of losing out on the Local

Authority Pension Scheme.

Evidence also came from the human resources director at Telecoms that the objective of recruitment and retention of key staff (objective six) was a vital element in the highly competitive world of bidding for trained telecommunication staff.

Effectiveness

The direct relationship between a performance pay scheme and the effective achievement of corporate objectives is shown to its best effects in David Webster Ltd in that the performance pay scheme is so directly linked to the prices agreed and systems operated under local authority contracts. If performance rises, employees receive more money, the overheads are covered quicker and the profit margins on the contracts rise – the connection is a very direct one.

Table 9 Summary of Research questions – Operational Objectives

	Merck, Sharp and Dohme	**David Webster Ltd**	**Telecoms**
Control	Slight element in PM system	Strong feature overall	No espoused intention
Communication	Medium feature of overall communication programme	Strong feature for employees to understand organisation's strategy	Clear intention to use performance pay through cascaded targets arising out of the organisation's results
Recruit and Retain	Medium element, especially retention	Medium element, especially where TUPE applies	Clearly articulated
Effectiveness	Slight element, strong at senior level	Very strong feature overall	Small element

The summary shown in Table 9 indicates that the specific objectives of performance pay schemes apply at a particularly strong level with the David Webster scheme while less so with the other two organisations.

4.3.3 Cultural Objectives

Trust and Openness

The clearest indication of the objective of improving trust and openness shows itself in the David Webster Ltd scheme. Under the performance pay scheme, employees have been given the freedom to start and finish work when they like, take breaks when they like and, within limits, follow the work route of their own choosing. In return, they are obligated to look after their vehicle carefully, including keeping it presentable at all times, and report on their work claims with meticulous accuracy. Where that trust is found to be broken, for example, where false claims have been made are treated with the utmost severity.

The objective of improving openness is similarly indicated by the sharing of the facts on contracts that have been won and by a reasonable degree of financial openness through the publication of the organisation's profit and loss account, despite being a private organisation.

The 'pot of gold' annual bonus system at Merck, Sharp and Dohme has provided the background for a more open approach to sharing organisational performance, especially as the distribution is in line with unit and team performance. The move onto broad-banding, although only loosely connected with the bonus arrangement, has the intention of leading to fewer confrontational appeals against grading while the enhanced performance management process intended greater discussions between managers and their employees as to where their performance could or should be leading them.

Drive and motivation

There is no doubt that increased drive and motivation was the key objective behind the David Webster Ltd scheme. As described in the background information, the concept has been to encourage employees to work smarter and more efficiently, to overcome problems and build successful relationships with the client local authority. In effect, the objective was for employees to see themselves as mini-contractors, running their own business in their own area with the drive and energy shown by such entrepreneurial ambitions.

Merck, Sharp and Dohme's aim was more long term in this area. 'Rewarding performance through our compensation programme encourages all employees to contribute at a high level and to continuously enhance their ability to do so through developing knowledge and skills' (MSD 1994, p6). They did not expect immediate changes in attitude or drive but an evolutionary approach reflecting the subtle changes occurring in the pharmaceutical industry as the pace of drug development increases and the industry consolidates.

The intention of using rewards to encourage motivation was articulated from the early announcement of the scheme. Where the market had become highly competitive, it became vital for employees to be motivated to overcome any contractual difficulties and meet, or exceed, customer needs. The generation of the specific values on customer care and quality and the rewarding of achievements in these competencies were linked specifically to the concept of improving overall motivation.

Cultural Change

Through all three cases runs the stream of attempting to engage employees in the cultural change process. The cultural change at David Webster Ltd. from a traditional Local Authority culture to an entrepreneurial private sector culture has been set out earlier. The payment system plays an absolutely crucial part in such a change, encouraging employees to think and act differently. One contract, namely the maintenance of lighting for London Docklands, stands out to epitomise this fundamental change. The contract was won on the basis of work being carried out by four operators working out of an established small depot in Ilford. The plan was to transfer two experienced operators, who lived close to the Docklands, onto the contract a recruit a further two operators. In the first couple of weeks, the two operators offered to try to carry out all the contract work themselves, keeping the specialist vehicle in a secure unit close to their homes and returning to the depot to stock up once or twice a week.

They had calculated the benefits they could achieve under the performance pay scheme to work in this way, even though they knew it would involve working 60 or more hours a week, with a typical summer day commencing at 4.00am and finishing at 8.00pm. This way of working was accepted by management on a three months trial basis with very careful monitoring of quality standards and, when it proved successful to both the client and the organisation, it was allowed to continue indefinitely. The two operators earned in excess of £40,000 in the first year and the contract was run at a healthy profit. The two operators, not surprising, opted out of the 48 hours maximum working under the Working Time Directive. They adopted the behaviours of entrepreneurs of small businesses - looking for viable short-cuts, testing the quality standards of the client and backtracking very quickly when they realised that they had gone too far and never missing a day's work, getting their families to help with the paper work at weekends.

One of the biggest elements of cultural change emphasised in the Merck, Sharp and Dohme scheme is the change from expectation of automatic salary increase to one of risk-sharing. 'Employees share the positive results of the best years and also the leaner times when results are not so strong....Salary increases aren't automatic: they must be earned and they do not automatically occur with every review' (MSD 1994, p1-2). Alongside this, is the switch from the conventionally rooted Hay Job evaluation scheme to Broad-banding where the degree of salary increase is increasingly related to performance, not the job title that an employee possesses. 'The fully trained ... employee may not only be performing competently but adding additional value and going beyond what the position requires and their pay should reflect this' (Ibid, p3)

In the changes in reward systems at Telecoms was associated with a raft of other HR initiatives which attempted to change the culture towards one of achievement and performance.

Fairness

The concept of fairness does not appear at the forefront of the Merck, Sharp and Dohme system. The word is not mentioned in their employee guide, except in the concept of the difficulties in calculating a 'fair reward' for teams that may be international in membership and go across different profit centres. Nor did the word resonate in discussions with senior HR executives. Their concern with moving away from the traditional Hay job evaluation, which had always stressed the internal equity, and moving more towards market comparisons and salary stances would lead to a playing down of the idea of 'fairness'. They were aware that the awarding of bonuses, especially the decisions on who would be awarded stock options, could never be regarded as universally fair.

For David Webster, Ltd., the fairness of the scheme has been stressed in the context of allowing high performers to earn more money, rather than the fairness of the detail. In fact, many arguments have taken place at meetings with scheme representatives on some of the scheme details and their fairness, to which he author has had access. For example, whether allowances should be given for the erection or servicing of lamp posts on footpaths where their vehicle has no access. Posts and materials have to be carried by hand, sometimes over 100 yards and work has to be carried out from ladders. The jobs take longer and are more awkward and tiring. Management's responses have generally been related to the prices agreed with the authority and, in many cases, these jobs are not differentiated in the contracts so the answer has been negative. They recognise this is unfair but point out that other simple work will make up for these exceptions. They would also try to share such work around where possible. Holding back claims for allowances is also an important strategic objective because negotiators at most levels realise that the acceptance of allowances on one issue generally lead to further claims on other issues.

Paying in line with employee contribution was the one of the central values for Telecoms and this was interpreted by management as a fairer way of rewarding employees than by reference to their job or service.

A summary of the findings relating to cultural objectives is shown in Table 10.

Table 10 Summary of Research questions – Cultural Objectives

	Merck, Sharp and Dohme	David Webster Ltd	Telecoms
Trust and Openness	Moderate association	Important element in sharing contractual information	Some element through devolvement of target setting
Drive and Motivation	Long-term intention	Vital element in scheme	Clearly articulated
Cultural change	Important element – move to risk-sharing	Vital element in change from local authority culture.	Present – allied to other HR initiatives
Fairness	Little or no emphasis	Important as a generally concept to reward high performers	Interpreted as paying in line with employee contribution

CHAPTER 5 – FINDINGS- 2 TELECOMS

5.1 Addressing Research Questions 2-8 Outcomes of Performance Pay

This chapter examines the quantitative research carried out at Telecoms in the light of the research questions 2-8. Firstly the details of the performance pay scheme is set out, including the operation of the performance management scheme and the conversion of performance into pay outcomes. The results of the questionnaire are then explained and their relation to the research questions and hypotheses.

5.2 Telecoms' Performance Management Scheme

We have seen throughout the literature review that the performance management process underpins the whole performance pay system. Performance management schemes usually fall into one of two camps; they are either those based on the achievement of a set of objectives , measurable or subjective; alternatively, they are behaviourally based, measuring competencies (Hartle 1995). This is often conceptualised into a debate over whether the organisation should be measuring inputs (competencies) or outputs (objectives).

Outputs have a longer history and a clearer 'raison d'etre' steeped in goal theory. We have seen in the literature survey that researchers, starting from Locke (1968) have concluded that, under the right conditions, the setting of goals leads to the improvement of performance. This assumes that the right conditions have been met, including the acceptability of the goals and the underlying commitment of the employees. This result is principally achieved because the goals:

- direct the attention of the employee to what needs to be achieved
- mobilise the effort put in by the employee
- increase the persistence of the employee in their desire to reach their goal
- influence them to think carefully about the right strategies to be employed.

Objectives, however, can be beset with problems (Armstrong 1999). Amongst other difficulties, they encourage a narrow focus, they can reduce co-operation, they are often difficult to define and measure accurately and it is difficult to decide whether they should be over and above an employee's normal job or simply extracted from their normal work requirements.

Competencies have had a shorter life but have increasingly been incorporated into performance management frameworks to encourage employees to adopt the behaviours required by the organisation, which should lead to higher performance. They have been increasingly adopted in the service sector where the importance of social skills (dealing with clients, caring for people, customer oriented activities) is paramount. As Thompson (2000) explains:

'The growing significance of these attributes has given rise to the term 'aesthetic labour' to describe these forms of service sector employment. Furthermore, because these skills are not conventional, there have been problems in describing and understanding their development. This has given rise to a greater interest in competencies and the measurement of softer skills through competency-based approaches' (p141).

These competencies become even more important as the concept of 'jobs' changes. It has moved into the analysis of work processes and associated skills, where the focus is on what employees need to be able to do in order to make the work processes as a whole perform smoothly, rather than an individual's job description. (Lawler 1994)

Since the early 1990s, mixed models of performance management combining objectives and competencies have emerged. According to Hartle (1995) they 'represent a more powerful and longer-lasting approach to performance management by assessing and rewarding what employees actually do and how they do it.' (p 105)

The scheme chosen by Telecoms aimed to incorporate the best of both types of scheme by being a mixed model.

Concerning objectives, all employees agreed a set of objectives (maximum of 5) with their managers prior to the start of the review period based on required performance improvement or revenue targets. These are sometimes referred to as 'Hard targets'. Some of the objectives may refer to team results. It was the responsibility of the management of each unit to ensure that all objectives were complementary both in terms of the unit's targets but also in relation to the target of any other unit where there is an operational or support link. At the end of the review period, achievement of the objectives were measured and a percentage rating produced indicating the extent to which objectives were achieved. For example, an employee whose objectives were assessed as 85% completed would have a rating of 85.

Concerning competencies, the scheme established a mechanism to measure an employee's ‘contribution’, often referred to as the 'Soft targets'. This was based on a set of five ‘values’, namely those referring to the customers' needs, quality , empowerment, teamwork and communication. An example of the rating system (Appendix 3) sets out the series of definitions that indicate the possible performance levels that can be achieved. The Manager decided which series best describes the employee concerned on the scale of 1-5. The rating from the five values is totalled and then multiplied by four to give a rating out of a maximum 100.

In bringing together the two measures, It was recognised that the achievement of objectives is vital in higher graded positions but less so in lower grades. For this reason, there was weighting between the two measures, shown in Table 11.

Table 11 WEIGHTING OF ASSESSMENT RATINGS

Grade	Rating for Objectives	Rating for Contribution
1-3	25%	75%
4-6	75%	25%
7-9	85%	15%

Grades 1-3 were the lower grades, often with high exposure to customers, so competencies (which Telecoms called ‘contribution’) had a higher weighting. For management grades 7-9, the achievement of results is paramount so objectives have much higher weighting. An example of a final rating for a grade 2 employee with a rating of 60 for objectives and 80 for contribution would be:

Objectives: 25% of 60 = 15

Contribution: 75% 0f 80 = <u>60</u>

Final rating = <u>75</u>

Effective feedback was considered a key feature and managers were instructed to carry this out at three stages. Firstly, at the start of the review period; secondly, to agree objectives after 6 months, where progress would be reviewed and a plan established for any actions necessary to assist in improving results and, finally, at the end of the period when all the measurement and assessment has taken place so a full discussion of the outcomes can take place with the employee.

Consultation with the unions took place in July 1994 and Managers were briefed shortly after. All managers were given a refresher course in Effective Objective Setting. They were responsible for briefing their own staff by October 1st with the use of a briefing pack. The period of operation of the scheme began in August 1994 and the implementation of the first payment under performance pay took place in April 1995.

5.3 Conversion of Performance into Pay

Salary determination in the first year of operation took effect through the Salary Review Matrix (Table 12) where salary increases ranged from zero (low performers) to 8% for high performers on the lower 25% of their pay band.

Table 12 Salary Review Matrix – Telecoms
Pay increases awarded at end of first year of performance pay scheme operation

	POSITION IN PAY BAND			
RATING	**Base to 25%**	**25%-50%**	**50%-75%**	**75% to top limit**
86-100	6-8%	4-6%	2-4%	*Note 1*
71-85	4-6%	2-4%	0-2%	Zero
56-70	2-4%	0-2%	Zero	Zero
41-55	0-2%	Zero	Zero	Zero
0-41	Zero	Zero	Zero	Zero

Note 1 High performing employees at the top of their scale receive an increase equal to the average percentage cost of the review.

The underpinning philosophy of the pay matrix was to take account not only of the performance of the employee over the current year but also their existing salary in their grade. A pay grade, for example, could start at £12,000 and rise to £18,000. An employee's position on this grade had traditionally been determined by their service on an incremental basis and they could rise to the top of the scale within a period of six to 10 years. In the late 1980s, however, the automatic nature of the progression had been blurred with authority given to the line manager for the pay increase to be withheld if performance was considered to be insufficient to warrant a further move up the scale. This could be especially in the light of the position and performance of colleagues carrying out the same or similar jobs. At the same time, employees whose performance had been considered especially good could be awarded a double increment. It was the uncertain, non-transparent and subjective nature of such decisions taken by local managers that influenced the move to introduce a well-documented, more objective performance pay scheme. There had been a number of complaints concerning the distributive justice of such an arrangement where employees appeared to have been given permanent awards based on flimsy evidence. There was also a smaller number of cases of awards being withheld, especially for employees in the higher position in their grade, for reasons they did not accept.

In constructing the matrix, the strong view held was that employees in the upper part of their grade, who were already being paid as high performers, should only receive an increase if they maintained that level of performance. A payment in excess of the 'going rate' which would move them further up the grade (the grade boundaries would be increased by the going rate, of course, at the time of each general salary review) could only be justified by performance in excess of that currently warranting their position.

For example, take an employee in the grade where salaries ranged from £12,000 to £18,000, whose salary was £13,000. This would put them in the Base to 25% bracket in their grade. Their position indicated that they were currently performing below average, perhaps because of lack of experience or their age. Let us assume that their performance rating at the end of the year was 75. The resulting pay increase award would be between 4% and 6%, which would be above the average increase and move them up the grade. Another employee in that grade who was earning £17,000 (in the bracket 75% to top limit) on the same performance rating of 75 would not receive a pay increase at all. That is because their current salary position indicated that of a top performer whereas the actual performance of 75 did not.

This system meant, in effect, that two employees rated at the same performance would receive widely varying pay increases. Although fully justified in the minds of the scheme creators and fully understood by most of the managers operating the scheme, this system still subsequently caused some negative reactions when salary increases were announced, as the 'Findings' chapter will indicate.

At the end of the first year of operation, when all the ratings were carried out and the moderation process by HR staff and senior management completed, the average rating was calculated as 81 and the average pay increase was 3.3%.

5.4 The way the questionnaire findings are set out

There are a number of elements to the research findings. The first one deals with the question of how the realities of the scheme match up with employees' expectations (Hypothesis 7). This is dealt with in section 5.5. The second element examines the employees' perception on the first year's working of the scheme and how they met the objectives set by the organisation, which is where the hypotheses 1 to 6 are tested. This is covered in Section 5.6. The analysis of the principle of performance pay is covered in 5.7 while the consideration of whether performance pay should be abandoned is dealt with in 5.8. The examination of whether employees' perceptions vary with the characteristics of the groups, (hypotheses 8) such as the sex, age, job role and whether employees are members of a union or not, is covered in 5.9.

The statistical results are set out in the following way. Table 13 is a summary of the Lickert seven point scale questions divided into a set of groups representing the hypotheses to be tested.

The groups consist of:

♦ Fairness/ Relationship with Manager	Hypothesis 1
♦ Motivation/commitment	Hypothesis 2 and 3
♦ Cultural change	Hypothesis 4
♦ Retention and loyalty	Hypothesis 5
♦ Team working	Hypothesis 6

Table 13 Results from questionnaires, before and after- Telecoms

Question Scales	Question numbers		Mean scores	
	Before	After	Before	After
Scale 1 Fairness	14	19	4.58	3.65
	17	22	4.60	4.06
	25	30	3.96	3.61
	26	31	4.36	3.54
	32		4.53	
	35	40	4.34	3.69
Fairness :Average			**4.39**	**3.70**
Scale 2. Relationship with Manager	10	15	3.35	3.22
	11	16	4.26	4.10
	20	25	4.21	3.87
	31	36	2.98	4.69
Relationship average			**3.70**	**3.82**
Scale 3. Motivation	7	12	4.49	4.42
	8	13	4.66	4.79
	13	18	5.00	4.84
	16	21	4.88	4.35
	23	28	4.40	4.34
	30	35	5.49	5.20
	29	34	5.03	4.66
Motivation Average			**4.89**	**4.66**
Scale 4.Performance Pay and Cultural Change	21	26	4.93	4.92
	27	32	3.80	3.76
Cultural Change Average			**4.36**	**4.34**
Scale 5 Scale of Payment	19	24	**3.70***	**3.16***
Scale 6. Satisfaction with Pay	18	23	**4.93**	**4.56**
Scale 7. Principle of Performance Pay	9	14	3.49	3.48
	34	39	4.53	4.30
Principle Average			**4.01**	**3.85**
Scale 8. Teamwork	12	17	3.92	4.24
	15	20	2.47	2.25
	22	27	4.09	3.32
	24	29	2.80	2.48
	28	33	4.92	4.63
	33	38	4.76	4.48
9. Return to previous system		**37**		**4.12**

Table 13 shows a summary of the comparison of the results " before" Performance pay was introduced with " after ". **Except where indicated by a * , the lower the mean score, the more positive the response to Performance pay. Where means are below the midpoint score of 4 this indicates some degree of support for the**

scheme and where they are above a score of 4, this indicates a degree of opposition. Other tables referring to specific questions are incorporated in the following text.

Where specific questions are referred to, they are indicated by the number on the first questionnaire followed by the number on the second questionnaire, i.e. (20/25). Table 13 has been is inserted at this point as a reference summary of the results of the questionnaire.

5.5. Hypothesis 7 Expectations and Realties

That experience of operating a performance pay scheme has a negative effect upon employees' perceptions of the scheme, compared with their expectations at the time when a scheme is introduced.

In the scenario where a company has a new product to sell to its employees, it must take care that it balances the need to convince with enthusiasm and the danger of falsely raising hopes. A company that effectively oversells the benefits will, as with any other product in the commercial world, be faced with dissatisfied and angry customers. Dashed high hopes can easily lead to reduced morale.

There is no doubt that the recent history of mergers, redundancies, the effects of the recession and the lack of current profitability had taken its toll with respect to morale in the organisation. Expectations of the scheme were not high. The initial response from the first questionnaire was dispiriting with average scores for "Motivation", "Culture change" and "Fairness" well over the midpoint of 4.

The change by the time of the second questionnaire was significant. In particular, in the case of "Fairness", the average had reduced from 4.39 to 3.70 reflecting substantial improvements in the ratings allied to the operation of the performance management scheme (setting objectives, measuring results, accuracy, etc.) Some of the initial doubt is this area seems to have been dispelled. The training that took place for managers would have influenced this situation. Good examples here were Q14/Q17 (I believe that the performance standards against which I will be measured are relevant to my job), which improved from 4.58 to 3.65 and Q26/31 (The performance measures under which I will be assessed are realistic and achievable) which improved from 4.36 to 3.54. Relevance, realism and achievability are key features of good objectives as Locke (1968) has made clear. Similarly, Q35/Q40 improved results showed that the managers knew more about their employees' work than they expected.

The improvements in practice were further supported by the overall reaction to their own ratings on the performance management scheme as set out in Table 14.

Table 14
Employees' reaction to their own rating under the performance management scheme (Questionnaire 2)

		Very fair	Fair	Uncertain	Unfair	Very unfair	N	average
	Score	1	2	3	4	5		
Q4	Contribution	15	50	30	7	4	106	2.39
Q5	Objectives	12	59	22	13	3	109	2.41
Q1	Overall	16	51	30	12	7	116	2.50

Over 50% of the respondents regarded the ratings as fair or very fair compared to less than 20% who regarded them as unfair. The particular question on interim feedback (Q 31/36), (part of the 'Relationship' scale) however, showed the reverse trend with a major swing from 2.98 to 4.69. This indicated a deep disappointment with the degree of feedback from that expected when the scheme started. There were other improvements but these were not so dramatic. Motivation improved from 4.89 to 4.66, Pay satisfaction from 4.93 to 4.56 , Principle of performance pay from 4.01 to 3.85 while Culture change altered little.

By only examining the *movement* of the ratings (the absolute values will be examined in the next sections), it appears that employees have been rather pleased with the scheme in reality. It has not been as bad as they feared.

A further question is whether the operation of the scheme has created any tendencies towards polarisation. In other words, has it produced stronger views as to both pro- or anti the scheme. This would show up in the level of standard deviation as set out in Table 15.

Table 15 Standard Deviations for scales – before and after questionnaires

Scale	*Before questionnaire*	*After questionnaire*
Fairness	1.67	1.53
Relation	1.40	1.46
Motivation	1.38	1.40
Cultural change	1.28	1.45
Scale of payment (reverse)	1.74	1.65
Pay satisfaction	1.74	1.74
Principle	1.64	1.51

The results offer little inclination towards polarisation. Rises have occurred under cultural change where experience of the scheme may have influenced employees to believe more strongly that performance pay either does assist such changes or does not. On the other hand, standard deviation for 'Fairness' has declined indicating that there is less clarity in employees' views. When this is considered alongside a more positive score overall, it would indicate that the more strongly held views of a number of negative employees may have mellowed. However, as will be seen later, this appears to be contradicted by the cluster analysis.

It can be concluded, then that the results of the two questionnaires do not support hypothesis seven. Employees have an improved perception of the scheme after it has operated for one year. The Hypothesis is rejected.

5.6 Addressing the Individual Hypotheses on Outcomes

5.6.1 Hypothesis 1- Fairness

That performance pay contributes to the objective of distributing pay increases in line with employee contribution.

Performance pay has often been identified by its promoters as a 'Fairer' way of rewarding employees, replacing a 'rate for the job' which reflects in no way the effort, interest, competence or, ultimately, the contribution of the employee. It has also been the basis of much criticism from trade unions, as set out in the literature survey, such as the NUT's campaign against performance pay in education.

Fairness, in Equity theory terms, is a matter of acting in accordance with the principles of distributive and procedural justice. It has been argued by Jacques (1961) that it should go a stage further and be seen to be fair in accordance with the 'felt-fair' principle. His theory was based on four assumptions:

- That there is an unrecognised standard of fair payment for any level of work.
- Unconscious knowledge of the standard is shared amongst the population at work.
- To be felt fair, it must be believed that pay matches the level of work and the capacity of individuals to do it.
- People feel that pay is unfair when they receive less than they deserve by comparison with their fellow employees.

Jacques's work was based very much on an industrial setting where much of the work was similar and where comparisons could be easier than in an administrative or service environment, such as Telecoms. So, although agreement on the assumptions is not difficult, identifying such matters as an 'unrecognised standard' and 'unconscious knowledge' is far from easy in a specific situation.

The fairness test will depend on the result of a number of factors for each individual. In this research, the evidence has been divided into two parts. Firstly, the ratings given to the 'fairness' and 'manager' questions by employees. The result overall in the Telecoms research (see Table 16) combining the 'Fairness' and 'Manager' questions gives a positive result by the end of the first year (3.82) but scarcely one of resounding enthusiasm. It matches the results obtained in the Thompson (1993) survey closely. It was a little more positive on 'Fairness' and less on 'Manager'.

In the case of the 'manager' questions, it was the poor result from Q31/36 (concerning the expectation of regular feedback from the manager),which moved from 2.98 to 4.69, that greatly influenced the result. This feedback did not take place as expected and, without such feedback, much of the real value of a performance management scheme is taken away. If this had matched the expectation before the scheme began, then the 'manager' scorings in total would have looked respectable and an improvement on Thompson's. This indicates the variable nature of the training

Table 16 Scales for Fairness and Relation with Manager

Question Scales	Question numbers		Mean scores	
	Before	After	Before	After
Scale 1 Fairness	14	19	4.58	3.65
	17	22	4.60	4.06
	25	30	3.96	3.61
	26	31	4.36	3.54
	32		4.53	
	35	40	4.34	3.69
Fairness :Average			**4.39**	**3.70**
Scale 2. Relationship with Manager	10	15	3.35	3.22
	11	16	4.26	4.10
	20	25	4.21	3.87
	31	36	2.98	4.69
Relationship average			**3.70**	**3.82**

process where managers did not appear to grasp the vital nature of this point. Nor are the managers particularly good in giving the feedback (Q11/16) when it eventually happens. Here, the score stays slightly negative, improving only from 4.26 to 4.10. As Peters and Waterman (1982) have commented, 'managers would prefer to go to the dentist than take an appraisal interview' (p82). Yet appraising employees is a key managerial skill, combining planning, communication and personal relationships and one that should be constantly practised. The outcome for the statement 'my manager takes my objective setting seriously (Q10/15), was good,where the score finished at 3.22. Employees were still not convinced overall that performance pay would be operated fairly in their department (Q17/Q22). Even after the first payments, the score only reached 4.02.

It is worth pointing out at this juncture that the employees' satisfaction ratings on the procedures and outcomes after the first year of operating was very highly correlated with their scorings on the Fairness scale as is shown in Table 17.

How are these two aspects connected? Let us take the case of one of the 'positive' employees where satisfaction ratings are high and who considers the scheme to be a fair one. In their case, the scheme could have genuinely motivated them throughout the period to the extent that they worked harder (or smarter). This was noted by their manager, who assessed their performance and gave them a high rating in both the objectives and contribution factors. The employee was told in the correct way and all this made the employee very satisfied. The ratings on the questionnaire were then made accordingly.

Table 17 Correlation between satisfaction ratings on procedures and outcomes and scorings on the Fairness scale.

	Fairness	Manager
Q1 Overall reaction to combined rating	.634**	.468**
Q4 Satisfaction with contribution rating	.543**	.528**
Q6 Satisfaction with objectives rating	.540**	.486**
Q7 Satisfaction with salary outcome	.544**	.460**
Q8 Satisfaction with way informed of salary outcome	.415**	.403**

** Significant at 0.05 level

A second possibility was that the employee may not have had an especially positive reaction to the fairness of the scheme in the first year but continued to carry out their job efficiently. Their manager will have noted their performance and given them a high rating. The employee, being happy with the results, may have looked back over the year and decided, in retrospect, that the scheme was actually a fair one.

If the example of a 'negative' employee is taken, then the situation is reversed. The employee does not feel happy with the fairness of the scheme, does not take any action to improve their performance and subsequently does not get good rating (or ratings sufficient for them to achieve the pay increase they were looking for). They are therefore dissatisfied with the ratings they have achieved and respond accordingly on the questionnaire.

The effect on 'relation' works in the same way, although it is interesting to see that the correlations here, although still at the .01** level of significance, are somewhat lower than those for fairness. It may well be that the perception of the immediate connection between their relationship with their manager and the final ratings and salary outcome may have been blurred. This could have occurred because of the manager's decision being overruled or adjusted in some way or because the salary decision was clearly taken out of the hands of the manager.

Further discussion on the distinctions between positive and negative employees is given in section 5.9 relating to characteristics of employees.

The second part of this current section examines **the employees' view on the performance management scheme** that underpins the whole scheme. The performance management scheme attempts to ensure that the judgements reached on an employee's performance are fundamentally fair and reasonable. In this part, three measures have been chosen. Firstly, there are the structural issues. Is the scheme a feasible one that can produce a fair result? Does the scheme take the right assessment factors into account? Does it give the right weighting? Do the rules allow for details like allowances for external factors that can affect the outcome but are outside of the individual's control ? Will the assessment process be threatening to employees' self-esteem when they find they are not rated 'outstanding' as they expect to be? (Fletcher 1993).

Secondly, there are the procedural issues. How do I learn about the scheme? Can I have my questions dealt with effectively and courteously? Is there sufficient time to consult me on areas like objectives? Can I take part in their creation? How will I hear about the results? Will there be time to discuss them and the pay implications?

Thirdly, there are the relationship issues. How knowledgeable and sympathetic is my Manager? Is he/she competent to operate the scheme correctly? Will they want to? Do I trust them to carry out a fair assessment? Will my department colleagues help me to achieve my objectives? Will I help them? Will other departments continue to be co-operative? Where does teamwork fit in?

These three measures examine the many criticisms made of performance management schemes in general and especially those where the outcome generated is a pay increase.

Most of these issues have been faced in the British and Irish performance pay schemes. In Proctor et al, (1993) the way management and the shop floor considered the scheme in terms of equity was very different. Management believed that pay should be distributed on the basis of a judgement of the employee's performance while many employees followed the traditional trade union view that 'if we are all doing the same type of work, we should all be rewarded the same' (p 69). Many considered that the judgement of an employee's contribution in a complex manufacturing environment was not easy and often unfair.

An analysis of the additional comments made help to identify where the scheme fails in this area is shown in Table 18. These have been divided into Positive, Neutral and Critical comments. Positive comments praise the scheme and some examples of Neutral comments are:

- 'This is a fair assessment for managers but not for more junior staff.'
- 'Is it fully understood that the customer can be internal as well as external?'

The 'Critical' comments have been sub-divided into structural, procedural and relationship. The structural issues are those that relate to the nature and detail of the performance management scheme itself. The procedural issues centre round the way the scheme worked in practice while the relationship issues concentrate on the comments made about the employee's relationship with their manager.

Table 18
Employees' comments on Performance Management aspects
After Questionnaire

	Positive	Neutral	Critical				Total
			Structural	Procedural	Relationship	Total	
General comments on Contribution	8	6	8	2	2	12	26
Customer comes first	10	12	5	1	-	6	28
Commitment to quality	6	10	5	1	-	6	22
Empowerment and responsibility	6	6	5	-	1	6	18
Teamwork makes a winning team	8	12	4	-	-	4	24
Communication is open and honest	6	1	9	4	3	16	23
Objective setting	16	15	8	16	4	28	59
Objective assessments	11	17	5	8	3	16	44
Total	71	79	47	34	13	94	244

The *structural* criticisms relating to the Contribution area start with the design, consistency and interpretation of the contribution grid (see example in appendix 3)

- 'Categories are all too vague - impossible to objectively rate against the descriptions'

- 'All areas are too rigid and not flexible enough. Not everybody is exposed to the customer base to allow good communication.'

These are common criticisms of competence based schemes which try to ensure consistency by squeezing every employee onto the same matrix of competencies. Either some jobs resolutely refuse to fit in or the matrix becomes too general for meaningful assessment. Taking the middle path can bring the fudge of compromise or it can be the very narrow path that actually works.

Further criticisms are directed at the difficulty in getting level 5, which is the highest rating:

- 'Not personalised enough - impossible to achieve level 5'
- 'The statement contains a "walk on water" clause - this is unfair. Nobody is actually right first time every time.'

The interpretation in these areas were carried out by the local managers and level 5s were achieved in a number of areas but it was reported to the author by the Head of Personnel than many mangers, despite training, found this the most difficult area. They wanted to identify their high-fliers but often found that the descriptions set out in Level 5 did not match precisely their achievements. Often, advice was requested on employees who, in the opinion of the manager, fell between level 4 and 5. The answer, in general terms, was for a member of the HR department to go through the entire set of ratings with the manager to help produce a consistent set of ratings which were neither too high as a whole or too low, taking into account the overall performance of that particular department. Most managers did not ask for this advice but the monitoring process at the end of the cycle teased out some specific departments where the average ratings appeared too high or too low and discussion took place (if rather rushed) to monitor and remedy this situation. Mostly, it was reported that the discussion and decisions were amicably held although a few isolated areas on on-going dispute occurred right up to the last minute before the announcements took place.

The empowerment of managers is often associated with the HRM approach, rather than the Personnel approach (Storey 1992). In this example, the tensions produced by this empowerment are clear. Managers may know best the performance of their staff but they would inevitably find it difficult to judge their staff in comparison with the performance of staff in other departments. Monitoring by a central function can help to ease this process, especially when accompanied by skilled counselling and a modicum of hard data relating to the department's performance, but the final decision will inevitably involve an injection of politics which ignores objectivity.

Other comments were more generally directed at the contribution element:

- 'Contribution part is fairly meaningless - must be more objective to assure fairness. At the very least, the score description should be reviewed to make them easier to relate to individuals.'

The *structural* criticisms relating to Objectives are more familiar. Three thoughtful criticisms are made in relation to the types of objectives:

- 'Targets are too specific to individuals and often conflict with those set in other areas. More harmonious targets should be agreed at the top and elements cascaded down to individuals. Also, everybody should have company and department targets, not just individual ones.'
- 'Use of readily measurable and quantifiable objectives limits choice of possible objectives. The result is to fail to give a rounded view of performance and distort motivation of staff to pay-related aspects. Measures need to widen assessment.'
- 'I frequently come across ridiculous targets for employees which pay lip service to the scheme and gain little respect for the individual. Managers should be made aware that these objectives should be meaningful to both the business and the employee.'

Although the theory of objective setting directs attention on objectives being measurable and appropriate to the individual, these comments show the other side of the coin. If they are too individual, then tensions can be created with the other parts of the jigsaw – other departments and the company strategy overall. The limit on the number of objectives may mean the well-rounded view of performance is obstructed. On the other hand, a wholly objective measure, attendance, which could be applied to everybody evenly, comes under attack:

- 'Do not include sickness record as an objective - no-one enjoys being ill!'

Another difficulty lies in the nature of the objectives. Should they be outside of an employee's normal work-load or targets added on? One employee is sure of the answer:

- 'In searching for objectives which are clearly measurable, the main job functions often have to be left out of the assessment.'

The dilemma is always present. Does one set objectives that are at the heart of the overall performance of the employee but are, in reality, the job of that person already, thereby paying twice over? Or does one use objectives as a 'top-up' which may cause direction and effort to be diverted to less important issues? This is not an easy case to answer.

Criticisms of the structure of schemes have been widespread in the literature. Lewis (1991) questioned how one is objectively to measure 'creating a good impression' in the Barclays Bank scheme of that time. He added:

'The more the performance pay system depends upon the behaviour rather than output assessment .... The more riddled with subjectivity it becomes, with all that that means in terms of subversion of the intended consequences' (p15).

There are numerous *procedural* criticisms relating to the way that the scheme was operated. At the start of the scheme, the *briefing* was rated as poor or very poor by 25% of the sample (see Table 19), although the overall mean gave a slightly higher rating than fair. Six employees claimed not to be briefed at all. Of the written criticisms, there were six examples of information only sent in the post and a further case of a 10-minute briefing in the Manager's car. One extended comment was:

- 'Don't have briefings to 50 people at a time. Don't add it on to other briefings. Have better handouts. Be prepared for questions before they are asked. Don't try to treat people as if they are part of a voluntary process when the procedure is being imposed without question.'

Table 19 Briefing at the start of the scheme Questionnaire 1, Question 3

Rating	Excellent	Good	Fair	Poor	Very Poor
N=	5	26	41	23	4

Mean score = 2.95

Mean ratings under all of the scales were far more positive for those that were briefed than for those who were not as shown in Table 20.

Table 20
Rating scores in relation to whether briefing took place. Questionnaire 1

Scale	Briefed = 1 Not briefed = 2	N	Mean	Standard Deviation
Relation	1 2	96 6	3.67 4.20	1.36 1.51
Fairness	1 2	96 5	4.38 4.96	1.68 1.59
Motivation	1 2	98 6	4.87 5.02	1.37 1.45
Culture	1 2	98 6	4.31 5.08	1.27 1.31
Pay satisfaction	1 2	98 6	5.01 5.50	1.84 1.01
Principal	1 2	99 5	3.98 4.70	1.64 1.68
Scale pay (reverse)	1 2	96 6	3.63 2.66	1.79 1.21

The differences were severe for all scales except motivation although they were not significant due, partly, to the small number of employees who were not briefed.

Another complaint concerned the lack of full information provided about the individual objectives:

- 'Objectives should be explained FULLY. I lost 20% because at no time had it been mentioned that the work had to be produced on a specific day each month.'

There were 8 complaints of objectives being imposed, rather than discussed and 4 of unrealistic or unobtainable objectives being agreed. There were a similar number of examples of employees being told of their ratings without discussion or explanation.

The complaints of relationship were quite few in total, which speaks well for the hierarchical structure. Decisions 'based on conjecture and guesswork' or 'very much an individual personal opinion than an evaluation of actual goals' were examples together with the more frequent cry (12) of objectives being changed too often.

One more perceptive comment was:

- 'Different managers set differently difficult targets, i.e. some people only have to do their normal job to earn their performance pay, others have to really achieve. It is not a level playing field. Samples should be taken across the board and checked for consistency.'

Overall, however, the lack of specific criticisms together with the scattered expressions of praise would indicate a fairly general degree of satisfaction with the competence of the manager and their fair approach. This result is, in many ways, unusual.

Many critics of performance pay centre on the inability of managers to make reasonable judgements. Alimo-Metcalfe (1994) reporting on American research showed that:

- Raters (managers, mostly) are less willing/likely to differentiate between the performance of individuals when the purpose is salary or promotion decisions.
- Raters are more likely to manipulate ratings when political influences are operating in the organisation.
- Raters give higher ratings to those they like.

- Raters' moods affect ratings.

Worse still, there is evidence that ratings can be discriminatory against women (Bevan and Thompson 1991), ethnic minorities (EOC 1991) and, recently, men as well (Rana 2000).

Some final comments by employees castigated the whole scheme:

- 'Performance pay destroys quality and instigates quantity.'
- 'Performance pay encourages people to pass responsibility to anyone else unless it positively affects their performance pay.'

These both mirrored findings by Murlis(1992) who drew evidence mostly from public sector schemes. The latter criticisms points to the dysfunctional nature of performance pay in that it creates tunnel vision where employees concentrate only on those aspects of the job linked to the possible payment to the neglect of other aspects of their work. (Kessler and Purcell 1992)

It can be concluded, therefore, that the results do not support hypothesis one. Employees are mildly positive but not significantly so. They are not convinced that the performance pay scheme operates fairly so that pay is distributed in line with an employee's contribution.

So why are the overall ratings for the scale questions on Fairness not higher? We will return to this in the chapter relating to Interpretation and Discussion

5.6.2 Hypotheses two and three – MORALE AND COMMITMENT/ MOTIVATION

That performance pay contributes towards the objective of increasing employee morale and commitment

That performance pay contributes to the objective of motivating the work force.

Morale, commitment and motivation are inter-linked concepts. The degree of an employee's commitment can be gauged by the level of motivation demonstrated. Similarly, the overall morale of a workforce is normally translated into a measure of collective motivation. The questions under these two hypotheses are mostly centred on the motivation issue but one directly deals with morale (Q30/35).

Commitment has been conceptualised as a framework with three major components (Allen and Meyer 1990). The first they call *affective* commitment which involves the idea of wanting to remain with the organisation because of positive work experiences. The second is named *continuance* commitment, which involves the idea of needing to remain with the organisation because of a lack of alternative employment opportunities and accumulated investment. In the context of the telecommunication industry of the mid-1990s, the alternative opportunities were starting to expand rapidly so this form of commitment was not easy for an organisation to develop. Accumulated investments are the way of describing pension schemes and share options but can also apply to the position in the salary scale achieved through having their high performance recognised.

The final component they call *normative* commitment, which involves the idea of feeling one ought to remain with the organisation because it espouses the personal norms and values that an individual employee holds themselves. This factor, of course, links with the nature of the organisation's culture. There is also a strong link to concepts of equity. Morris et al (1993), for example, in their longitudinal study of highly educated UK males in their first five years of employment found that levels of commitment (and hence turnover) were significantly linked to low initial expectations and perceptions of fairness.

Performance pay can have an effect on all three of these components. The positive work experiences can arise from the efficient and stimulating effect of objective setting and completion and the development of individual competencies involved in a performance pay scheme increasing an individual's affective commitment. The investments explained above in the way that a performance pay scheme affects pay levels and recognition may also be influential, especially if they have been developed over time which will increase their continuance commitment. Finally, working within an organisation driven by the principle of rewarding high performers in a fair and generous way may increase their normative commitment.

As measured by the Motivation set of questions, this is the area of least success shown by this research (see Table 21). The overall figure may have improved during the first year of the scheme from 4.89 to 4.61 but this scarcely represents, on the surface, a satisfied work force motivated by performance pay. We have seen that Kohn.(1993) has strongly expressed the view that performance pay rewards only motivate people to go after rewards at the expense of interest in their job and quality of their work and this result could indicate some truth in his view.

Table21 Motivation Scale

Question Scales	Question numbers		Mean scores	
	Before	After	Before	After
Scale 3. Motivation	7	12	4.49	4.42
	8	13	4.66	4.79
	13	18	5.00	4.84
	16	21	4.88	4.35
	23	28	4.40	4.34
	30	35	5.49	5.20
	29	34	5.03	4.66
Motivation Average			**4.89**	**4.66**

In their general comments, a number of employees have taken up this point. A good example was:

- ‘Motivation and incentive l already had. Teamwork is unavoidable in my job so performance pay has not affected any part of my performance. It has motivated people not to do anything against performance pay interests, making people less co-operative with other people and departments. Some people will even be underhand to get good results. l think goal-setting and motivation is very necessary - this is not the way -it is the cause of low morale within the organisation.’

The use of performance pay to focus the attention of individuals and teams on improving performance has not universal acceptánce. One employee described the changes that he saw:

- 'Performance pay threatens and intimidates and does the opposite to motivate. Team meetings have an atmosphere of competitive causing unpleasant de-motivation. The friendly, smiling atmosphere is rapidly being squeezed out, I am sorry to say.'

For others, performance pay was not a deciding factor in their own performance:

- 'Although I got a decent performance pay rating and increase, I worked as hard as I could anyway. No-one had a morale boost with a high overall rating but a low rating was quite bad.'

The previous discussion on failings in the performance management scheme demonstrated that all employees did not have influence over their target, nor over their financial rewards. Nor do the same motivators work for everybody. Baron (1993) found that managers are likely to be motivated by power, responsibility and fear of failure while non-managers by convenient, secure working conditions and material reward.

The scale dealing with the Scale of Payment (see Table 22) had resonance with Vroom's (1964) expectancy theory. Vroom stresses the importance of the valency of the rewards. The response to Q19/24 ' I believe that the financial incentive of performance pay is too small to motivate employees' had a modicum of agreement on the first questionnaire at a mean of 3.70.

Table 22 Scale 5 Scale of Payments

Question Scales	Question numbers		Mean scores	
	Before	**After**	**Before**	**After**
Scale 5 Scale of Payment	19	24	**3.70***	**3.16***

However, the experience of performance pay converted a larger number of respondents, so that the mean score on the second questionnaire was 3.14 indicating a much greater agreement to the statement. Only 27 respondents out of 116 gave a score of 5,6 or 7, indicating any degree of disagreement with the statement. With a small valency, it is not too unexpected that the motivation effect was not too great.

Table 23. Correlation between questions on satisfaction with process and outcomes and scoring on Scale of payment scale. Questionnaire 2

	Scale of payment (reverse scale)
Q1 Reaction to combined ratings	-.151
Q4 Reaction to contribution ratings	-.117
Q6 Reaction to objectives ratings	-.243*
Q7 Satisfaction with salary arising from performance pay	-.518**

** Significant at 0.05 level.
* Significant at 0.1 level

Table 23 shows the correlation between the Scale of payment and the employees' satisfaction with the processes and outcomes. There was a high level of negative correlation between the respondents' level of satisfaction with their salary arising from the performance pay scheme and their views on the scale of payment, significant at 0.01**. As this question was a reverse question, those with high satisfaction with their salary regarded the pay outs as sufficient (in other words, they tended to disagree with the statement) and those who were dissatisfied did not. This level of correlation did not stretch to the respondents' reactions to their ratings, however. Those satisfied with their ratings may have been less happy with the conversion into salary and therefore believe that the pot of money available was insufficient. In other words, they did not value the rewards.

The dissatisfaction voiced by a good number of respondents over the process of performance management also has a bearing on expectancy theory. A number of the comments given indicate the low level of *instrumentality* (the degree to which the desired goals can be achieved as a direct result of the individual's behaviour):

- 'No consideration given to issues beyond our control'
- 'Little consideration given to genuine illness'

- 'Consideration was not given for urgent works that might change objectives'

Similarly, there were also comments reflecting the lack of *expectancy* (the individual's belief concerning the likelihood that a particular act 'good performance' will be followed by a particular outcome 'high ratings and a good salary increase'):

- 'Different managers set differently difficult targets, i.e. some people have to do their normal job to earn their performance pay, others have to really achieve. It is not a level playing field.'
- 'Use of readily measurable and quantifiable objectives limits choice of possible objectives. The result is to fail to give rounded view of performance and distort motivation of staff to pay-related aspects.'
- 'As a support person rather than an engineer, it is difficult for my manager to get me the financial recognition he thinks I deserve.'
- 'Despite a very high mark, I did not receive a good financial reward.'

It can be seen, then, that employees who have believed that the ratings have been carried out fairly under a fair procedure give a high response to the questions on motivation. They consider that procedural justice has taken place. This is supported by the correlation results show in Table 24 between Questions 1, 4, 6 and 7 and the score on motivation.

Table 24. Correlation between questions on satisfaction with process and outcomes and scoring on Motivation Scale.

	Motive
Q1 Reaction to combined ratings	.444**
Q4 Reaction to contribution ratings	.449**
Q6 Reaction to objectives ratings	.388**
Q7 Satisfaction with salary arising from performance pay	.413**

** Significant at 0.05 level.

In each case, there is a highly significant correlation between the scoring on motivation questions motivation and the reactions to the various outcomes in terms of fairness and satisfaction. Those who have reacted positively to the outcomes also rate highly the effect of the performance pay on motivation. Those who see the result poorly, react negatively to the motivating effect of performance pay.

The previous chapter took a detailed look at the respondents' view on the performance management system. The views on the setting, monitoring and assessment of the objectives part has a strong bearing on Goal Theory (Locke and Latham 1990). These researchers have shown that for goals to be successful, they need to be challenging, accepted by the employee, there must be an element of participation in the goal-setting process and the employee must get valued feedback. Respondents made it clear that these conditions were not always met and this affected the motivation score:

- 'Although I received a pay award which was classed as performance pay, I am not aware of how this was achieved as I did not have an agreed performance pay plan with my manager. Without a plan, there is no review therefore I have no idea as to how these were assessed in my particular case. I wish I did.' (motivation score of 5.5)
- 'There is a lack of effort to define appropriate objectives (it all seems rather difficult) This leads to over-simplified objectives that are easy to measure but do not necessarily relate to key tasks in a job/role.'(motivation score of 4.8)
- 'No support is given to achieving objectives after setting (motivation score of 4.2)'
- 'It was not made clear to me who set the objectives (motivation score of 4.9)'
- 'Should be a two-way process between manager and participant. (motivation score of 4.8)'
- 'The objectives were set without any input from me (motivation score of 5.1)'

Returning to the overall scores arising from both questionnaires, although motivation and morale are not synonymous, there is a clear connection. It is argued that well motivated employees work harder and produce a better performance leading to higher organisational achievement which, in turn, leads to higher morale. In this research, then, although the motivation score has improved slightly between the two questionnaires, it is clear that performance pay as an aid to improving motivation, morale and commitment has not been very unsuccessful.

As a result, hypotheses two and three must be rejected. Performance pay has not increased morale and commitment, nor has it contributed towards increasing motivation.

5.6.3 Hypothesis four – CULTURE CHANGE

That performance pay contributes to the objective of instilling a positive message about performance expectations and the achievement of company objectives which is recognised by the employees as a culture change.

We have seen that the strong messages sent by pay systems are utilised by a number of organisations to implement organisational change. In the CBI/Hay survey (1995), over a quarter of the respondents used pay policy to help drive and support organisational change. The IPD research (IPD 1998) has shown that 41% of organisations believe that performance pay has had a positive effect upon the change process while only 5% reported the effect was negative. Thompson, (2000) is not convinced, however, believing that 'the evidence seems to suggest that the impact of these changes has been predominantly negative' (p146).

In any case, there are some researchers who doubt whether any embedded culture can be changed. It has been argued that this path is so dangerous that it should not be attempted because it can lead to unintentional consequences (Ackroyd and Crowdy 1990). Many researchers have observed that a major reason for the failure of organisational change efforts is that they ignore the relative strength of the culture as a whole and of influential sub-cultures (Deal and Kennedy 1982, DiTomaso 1987). Others propose that culture can only be changed as a secondary process after employees' behaviour has been modified (Kilman 1982). Given these research-based results, therefore, this particular organisational objective has a hard task ahead of it.

This objective is primarily centred on using the changed organisational values to exert a leverage to changing the culture as a whole. The thinking is that employees who know and understand the raft of company and individual objectives and who successfully work towards them will have greater job security than those who work in conflict with those objectives. Comments from employees indicate that the Values that the company was emphasising had considerable support but their implementation was seen as patchy and the relationship with security was a non-sequitur. Security in any form, however, is rarely present in the workplace today. Added to the redundancies before the scheme began, there was a further small downsizing exercise before the end of 1995 that would have influenced the response to these questions.

Table 25 Scale for Culture Change

Question Scales	Question numbers		Mean scores	
	Before	After	Before	After
Scale 4.PERFORMANCE PAY and Cultural Change	21	26	4.93	4.92
	27	32	3.80	3.76
Cultural Change Average			**4.36**	**4.34**

Only two questions were asked in this section and we have seen that the reliability measure here is not strong. There are also conflicting results from these questions as shown in Table 25. The direct question about whether there had been a culture change for the better (Q21/26) produced a resounding 'no' scoring 4.92, the second worst score of all. In fact, there was not one single employee who strongly agreed with the statement that 'performance pay has helped to change the culture of the organisation for the better'. However, another more detailed aspect of culture - how performance pay may have improved communication by stimulating more discussion between managers and employees (Q27/32) obtained a more respectable 3.76 and 11 employees strongly agreed this statement. Compared to the IMS survey (Thompson 1993), the results overall are a little worse.

It is clear that the outcomes from the performance management process had an influence on the ratings under this chapter, as shown by the correlation results in Table 26

Table 26 Correlation between questions on satisfaction with process and outcomes and scoring on Culture Scale. After Questionnaire

	Culture
Q1 Reaction to combined ratings	.465**
Q4 Reaction to contribution ratings	.489**
Q6 Reaction to objectives ratings	.472**
Q7 Satisfaction with salary arising from performance pay	.478**

** Significant at 0.05 level

Employees satisfied with their ratings, salary increase and the process overall were more likely to give more positive scores for the effect on the organisation's culture through the introduction of performance pay. Those dissatisfied were more likely to give negative scores.

The variety of scores overall was demonstrated in the comments given in the second questionnaire. A number indicated that the organisation had made progress in the area of communication:

- 'Communication is open and honest' - this is necessary and exists, l think, in practice.'
- 'Communication is improving'

There was no doubt as to the importance of good communication in the minds of some employees:

- 'Without open and honest communication you will lose'
- 'Must be No. 1 to achieve commitment and your goals'

On the other hand, many employees saw this area as one of increasing weakness and produced very critical comments:

- 'Supervisors/Managers really don't like to hear 'open and honest' communication - my manager takes it personally.'
- 'l do not trust what little l hear from my peers.'
- 'Communication is open and honest until it reaches middle and senior management. Then I think it breaks down.'
- 'It depends on who is open and honest. Management make you doubtful.'

There is a further complication in that the definition of effective communication or any cultural change is dependent on the personal constructs that individuals have built up over a period of time (Kelly 1955, quoted in Hayes 1997). Kelly explains that:

'Someone whose experience has led them to develop personal constructs which imply that managers will always look for ways of getting their pound of flesh at the expense of the work force is not going to change their mind overnight' (p43).

So one person may be satisfied to exist within a culture where communication takes place on a 'need to know' basis, whereas another (perhaps with either a less trusting personality or with a genuine interest in a much wider field of activity within the organisation), may believe in a full and frank exchange of information.

Two strong views expressed in this light were:

- 'Rubbish! No feedback from department managers – too many secrets'
- 'Important personal discussions imposed in isolation from one's colleagues.'

Taking the overall results, therefore, it is clear that this Hypothesis must be rejected. Employees do not consider that performance pay has led them to accept the cultural change indicated by acceptance of the company's performance expectations and achievement of company objectives.

However, it has to be added that, despite the views of the employees, there has been some indication of accepted change through behavioural alterations brought about through the performance management scheme. This is explored further in chapter 6 which deals with Interpretation.

5.6.4 Hypothesis five – RETENTION/LOYALTY

That performance pay contributes to the objective of offering a competitive salary and benefits package in comparison with rival companies in order to reduce staff turnover and attract a higher calibre of staff.

Towards the end of the 1980s, at the height of the previous economic boom, the tightness of the labour market for skilled employees was a significant factor in the introduction of performance pay, particularly in the public sector and privatised industries (Murlis 1992). This was associated with the movement away from centralised bargaining to give employers the freedom to offer better rates for high performers without having to jack up the entire pay spines or grading system with its consequent very high cost. The onset of recession and the leaner 1990s has generally reduced this necessity, so the inclusion of this objective is as much about insurance against the return of these more prosperous times plus the need to plug gaps in very specific skills areas.

There were limits in testing this objective. The most common method is to inquire as to respondents' intentions of staying with the company. There are always doubts about the truth of these answers, even with anonymous questionnaires, as they deal with a very sensitive issue in times of redundancy. For that reason, such a question was not asked. The only question asked in this area, therefore, dealt with pay satisfaction (Q18/23) shown in Table 27.

Table 27 Satisfaction with pay

Question Scales	Question numbers		Mean scores	
	Before	After	Before	After
Scale 6. Satisfaction with Pay	18	23	**4.93**	**4.56**

Again the result was rather unsatisfactory at 4.56, although improving from the expectation questionnaire (4.93). This result compared with a slightly better 4.2 in the Thompson survey. It could be argued, therefore, that performance pay has brought a lesser degree of pay satisfaction.

A considerable doubt arises, however when considering the result of another question. Examining the results to question 7 shown in Table 28 in the 'after' questionnaire - **'How satisfied are you with the outcome relating to your salary arising from performance pay'**, the results were:

Table 28 Satisfaction with salary increase – 'after' questionnaire

Score	(5) Very unsatisfied	(4) Unsatisfied	(3) Neutral	(2) Satisfied	(1) Very Satisfied	Mean Score
N=	10	28	28	39	10	2.90

The response to this question, on balance, was that employees were on the marginally satisfied side of neutral. There was not the fairly strong indication of overall dissatisfaction with their current salary reported in Q23. The two questions, however, are not entirely identical. You can be pleased that you have a reasonable pay increase but that you are still some distance from where you hope to be and this appeared to be the current situation.

A further question was asked as to how satisfied the respondents were regarding the way they were **informed about their salary** (Q8) shown in Table 29:

Table 29 Satisfaction with method of communication– 'after' questionnaire

Score	(5) Very unsatisfied	(4) Unsatisfied	(3) Neutral	(2) Satisfied	(1) Very Satisfied	Mean Score
N =	9	32	23	39	11	2.90

This produced almost identical results, which is, in many ways, more worrying as this is another area where a substantial minority is not satisfied with a procedural issue. There were 52 written comments in this chapter (Q10), the highest for any question giving the opportunity to comment and only 9 of which were complimentary or neutral. Of the remaining 43 who were critical of the procedural aspects of salary notification, 7 respondents reported that they were informed of the result in the post, there were 5 complaints of delays, a further 5 told of rushed meetings (5 minutes, 15 minutes were examples), and 8 were unsure of how the calculations were made with insufficient or no information and questions unanswered. 4 felt that their manager had not sufficient experience of them to make the judgements, 4 considered the appeal procedure but felt that they were discouraged from using it by management's approach. An example of the latter is:

- 'My manager advised me of my salary. Said it was a case of 'take it or go to appeal within 3 days', 2 of those days being over a weekend. I was advised that the outcome of the appeal would not change. A case of 'take it or leave the company.'

All personnel managers are aware of the difficulties associated with salary/ratings notification. Resources equivalent to a 'Desert Storm' operation are required in practice to ensure everybody gets told, on the right day around the same time, the right information and in the right way. Judging the level of this as a priority often demonstrates the attitude gap between management and employees. To an average employee, it is often regarded as the most important event of the year and one expected with considerable uncertainty and anxiety, especially if their interim feedback is somewhat sparse. To managers, on the other hand, delaying the notification by a few hours or a day is not significant, allocating enough time for each person (especially in a downsized, large team environment) is difficult with other deadlines and crises with which to cope. Moreover, having all the information to discuss the fine detail for each employee takes too much preparation time. The nature of this gap can explain how employees, as a whole, can feel neutral on this point. Neutrality is probably not sufficient to improve motivation or change culture.

A further influence on the pay satisfaction issue was the level of performance pay payment. Was the carrot ultimately big enough? We have seen that the actual rating for Q.19/24 'I believe the financial incentive of performance pay is too small to motivate employees' was 3.16 showing a considerable level of agreement (reverse question). This was down from the 3.70 rating on the first questionnaire, indicating that experience had blunted what effect it may initially had carried.

In times of low inflation, the range of payments will inevitably be quite small. The difference between an outstanding performance and a poor performance was, in theory, 8%, as was shown in the pay matrix.(Table 12) but there were few at the extremes of zero or 8% and most were in the ratings in between, where the difference will be in the order of 1% or, at most, 2%. As one respondent put it:

- 'A lot of effort for £300 gross!'

The connection between loyalty and satisfaction with the outcomes is indicated by the correlation between pay satisfaction and responses to individual ratings and salaries under performance pay in the 'after' questionnaire as shown in Table 30.

Table 30 Correlation between questions on satisfaction with process and outcomes and scoring on Pay satisfaction Scale.

	Pay satisfaction
Q1 Reaction to combined ratings	.450**
Q4 Reaction to contribution ratings	.422**
Q6 Reaction to objectives ratings	.391**
Q7 Satisfaction with salary arising from performance pay	.440**

**Significant at 0.05 level

These are significant correlations, but less than those that have occurred with the other scales. It is strange that the correlation against Q7 is not higher. This could, however, be explained by the fact that respondents could be distinguishing between their current overall salary (which may be disappointing) and the level of increase under the performance pay scheme, which could have pleased them, but still leaves their salary at a level that they do not find satisfactory.

Summing up, it can be concluded that hypothesis five is not proven. There is no evidence that the scheme has helped retention or loyalty. Employees are not satisfied with their pay levels but were more positive about the performance pay outcomes at the end of the first year of operation than when they started the scheme.

5.6.5 Hypothesis six – PERFORMANCE PAY AND TEAM WORKING

That paying performance pay on an individual basis works against the concept of team working.

Human Resource Management theory is presented as a unified and consistent set of propositions and actions (Storey 1992). Within those tenets is at least one major contradiction. This is that individual employees must be rewarded for their individual contribution towards meeting organisational objectives (chiefly through performance pay), yet they must also be part of empowered work-teams involved and committed to achieve group objectives. Doing both can prove tricky as loyalties are divided. Tensions arise with attempts to develop a collective identity around team working and then to discriminate between individual employee's contributions (Geary1992, Lewis 1991).

On the other hand, there is some limited American evidence that successful team incentives can yield very effective results. Pritchard, Jones and Roth (1988) found in a number of companies that substantial productivity gains were achieved by group schemes, although most of these gains were attributed to the goal-setting and the feedback, not the incentive itself. Organisations may attempt to square this circle by assessing the 'team-player' qualities as part of the set of competencies and this scheme is one in point. But do they make an integrated and coherent scheme?

The negative effects of performance pay schemes on team working emerge from this study, as shown in Table 13 (p109). Performance Pay has not fostered good working relationships with other members of the department team (Q28/23) with a rating on the second questionnaire of 4.63, showing little improvement from 4.92. Nor does it seemed to have helped the department to work together as a team (Q33/38) with a rating of 4.48, improving from 4.76. This supports the findings of Robinson (1992) whose research into performance pay perceptions in a large pharmaceutical company found that 82 per cent of employees considered that the scheme did not encourage teamwork. Hypothesis six is clearly supported by these findings.

One employee commented:

- 'The scheme should be scrapped. For teams it is bad as the good carry the bad. For individuals, too much focus on aspects of own job prevents teamwork and without teamwork there cannot be any synergy.'

Should individual payments be replaced completely by group payments? Employees certainly consider that team working should be rewarded as shown in the answers from Q24/29 where the ratings improved from 2.80 to 2.48. This may be regarded as support for the rating of team working as part of the contribution element or a clear statement in favour of some form of team-based payment. On the other hand, there is a very strong view that performance pay should reward an individual's contribution (Q15/20) where the rating is a very strong 2.25. So the view seems to be that both individuals and teams should be rewarded. Q22/27 indicates support for this idea by showing that employees tend to consider that there no clash with rewarding individuals and getting them to work together with the rest of the team, a view which has gained substantially with experience of the scheme. The measure here moved from an uncertain 4.09 to a more positive 3.32.

When it comes to the practical implications, however, doubt seems to creep in. With team-based pay, the implication is that employees all should receive the same payment. This is not found by employees to be the solution to the problem. In answer to the question as to whether the team would work together better if all members received the same payment (Q12/17) the rating was very indecisive, moving from 3.92 to 4.24. If anything, experience of the scheme worked against the concept of equal payments.

So the consensus appears to be that both individuals and teams should be rewarded. As one respondent commented:

- 'Teamwork and individual contribution to the business should be treated equally as circumstances change all the time and business fluctuates.'

To run a scheme with both individual and team payments is possible. Many sales incentive schemes work on this basis. However, it does produce additional complications and not everybody would agree to this arrangement as one respondent commented:

- 'Teamwork in relation to performance pay will only work if everybody in the team is prepared to pull together and not if an individual is working for themselves. Therefore performance pay should be as a team or individually based - not both. My view is that we should work together and support each other.'

Although the findings support hypothesis six, the answers give a rather unclear lead as to how the difficulty should be resolved. Direct replacement of individual payments with group payments would not be popular while paying directly for both team and individual contribution would create complications, which may make the scheme even more unwieldy.

A summary of the outcomes of the research for Hypotheses one to seven is shown in Table 31

Table 31 Summary of outcomes for hypotheses one to seven

Hypothesis one - FAIRNESS That performance pay contributes to the objective of distributing pay increases in line with employee contribution	Hypothesis not proven. Employees very mildly positive but not significantly so. Problems due mostly to difficulties with performance management scheme
Hypothesis two – MORALE AND COMMITMENT That performance pay contributes towards the objective of increasing employee morale and commitment	Hypothesis rejected. Employees believe that performance pay does not increase morale or commitment. Again, difficulties with nature of scheme and way it is implemented.
Hypothesis three - MOTIVATION That performance pay contributes to the objective of motivating the work force	Hypothesis rejected.. Employees do not believe that performance pay increases motivation.
Hypothesis four – CULTURE CHANGE That performance pay contributes to the objective of instilling a positive message about performance expectations and the achievement of company objectives which is recognised by the employees as a culture change	Hypothesis rejected. Negative perception by employees although some indications of accepted change through behavioural alterations brought about through performance management scheme
Hypothesis five – RETENTION/LOYALTY That performance pay contributes to the objective of offering a competitive salary and benefits package in comparison to rival companies in order to reduce staff turnover and attract a higher calibre of staff	Hypothesis not proven. Employees not satisfied with pay levels but positive about performance pay increases at end of first year
Hypothesis six That paying performance pay on an individual basis works against the concept of team working	Hypothesis proven.
Hypothesis seven That experience of operating a performance pay scheme has a negative effect upon employees' perception of the scheme compared with their expectations at the time when the scheme is introduced	Hypothesis rejected. Employee ratings of scheme have improved after one year of operation.

5.7 Principle of Performance pay

Other surveys have supported the proposition that employees agree in principle to performance pay, including the Templeton survey (Kessler and Purcell 1994), where there was very strong support, Thompson's IMS survey (1993) and the Inland revenue survey (Marsden and Richardson 1992) where 57% agreed with the principle.

This survey is no exception. Support for the principle in Q9/14 was 3.49 altering marginally to 3.48 in the second questionnaire. A further question (Q27/32) relating to good work being recognised and rewarded received much less support (4.53 to 4.30) but answers could well have been influenced by procedural issues. Employees in Telecoms have a clear view that there is nothing wrong with performance pay in principle. Their difficulty is in the implications and changing work practices of such schemes and the way this particular scheme operates in practice.

As with the other scales, there is a strong connection between employee satisfaction with the process and salary outcomes arising from the performance management scheme and their scorings on the principle questions as shown in Table 32

Table 32 Correlation between questions on satisfaction with process and outcomes and scoring on Principle Scale. After Questionnaire

	Principle
Q1 Reaction to combined ratings	.582**
Q4 Reaction to contribution ratings	.479**
Q6 Reaction to objectives ratings	.503**
Q7 Satisfaction with salary arising from performance pay	.555**

** significant at 0.05 level

The outcomes clearly reinforce their views on the principle. As shown later in the section on employee characteristics, the largest change between the two questionnaires took place among the female respondents where the mean score moved from a less than convincing 3.86 to a much more authoritative 2.82. For males, the mean score actually became more negative, moving from 4.09 to 4.31.

An example here is a respondent who gave a score of 6 on this question, quoting:

- 'I think performance pay could work if management took it seriously and worked in co-operation with staff rather than against them' (male, grade 7, non-trade unionist)

A similar view coming from a different direction came from a respondent who gave a score of 5 to this question:

- 'Performance pay is a good idea but the way it has been introduced has caused an enormous increase in parochialism, with both individuals (sometimes) and individual departments (often) refusing to accept ownership or give help with problems that may adversely impact on their performance pay targets.' (male, grade 7, non trade unionist)'

For some, however, the principle remains even when the practice is faulty. Two respondents, scoring 2 and 1 respectively insisted that:

- In principle the scheme is an excellent idea and, to my mind, has increased motivation. However, I am concerned by its implementation in many areas of the business'. (female grade 8, non trade unionist)
- Performance pay must be a good idea in principle. However, the practical application of the scheme in the areas visible to me is, if anything, counterproductive'. (male, grade 7, non-trade unionist)

The findings, therefore, indicate a reasonably strong support for the principle of performance pay. In other words, employees consider that payments should differentiate on the basis of the performance of the employee. This is despite the fact that they do not consider the scheme much of a success.

5.8 Should performance pay be abandoned?

The 1998 IPD report indicated that around 23% of organisations had dropped their performance pay scheme since 1990. In commenting on these findings, IDS (1998) found this to be a striking revelation because it was a far larger number than any previous survey had revealed. It pointed, they said, to one unavoidable conclusion:

'There has been a great deal of flux over the past few years. May organisations adopted a new system, found it unsatisfactory and moved on, often reverting to their old approach – or a modified version of it.' (p8)

However, it has to be said that fewer than 10% of organisations were planning to abandon their performance pay schemes altogether. Radical change was a preferred option, indicated by 30% of respondents to the IDS survey.

The analysis for Q37 (1 would prefer to return to the old salary system) provides one of the most interesting answers because it is a question that has not been asked specifically in previous studies. The answer is uncertain at 4.12.(This is a reverse question) Despite all the criticism and poor ratings on Motivation, Pay satisfaction and Culture change, employees very marginally indicated a preference to stay with the scheme. They are certainly not marching with banners for it to be liquidated.

A little reported finding of the Marsden and Richardson (1991) study was that employees gave a neutral response to the statement 'for all its faults, it is better to have Performance pay than not' which indicates a similar attitude.

This is all the more striking, taking into account the overall negative response. So employees believe, on balance, that the scheme should not be abandoned.

5.9 Analysis by employee characteristics

The questionnaires in Appendix 2 set out the complete rating response on each of the questions. An analysis has been made to differentiate employee characteristics by their ratings. The sub-hypotheses to be tested were as follows:

5.9.1 Hypothesis eight – EMPLOYEE CHARACTERISTICS

Sub-hypothesis 8a – Trade union membership

That there is no difference in perception of performance pay between trade unionists and non-trade unionists.

Sub-hypothesis 8b –Gender

That there is no difference in attitude towards performance pay between men and women.

Sub-hypothesis 8c – Age

That the age of the employee does not affect his/her attitude towards performance pay

Sub-hypothesis 8d – Level of seniority

That the seniority of an employee does not affect his/her attitude towards performance pay.

Sub-hypothesis 8e – Employee rating

That the personal ratings obtained under the scheme do not influence the attitude of an employee towards performance pay.

Sub-hypothesis 8f – Length of service

That the length of service of the employee does not influence his/her attitude towards performance pay.

Sub- hypothesis 8g – Position in grade scale

That the position in the grade scale does not influence his/her attitude towards performance pay.

The literature review detailed the research evidence concerning the attitudes of groups with common characteristics towards performance pay. In the Templeton project (Kessler and Purcell 1994), for example, younger and short serving employees were generally more positive about performance pay than older and longer serving employees. Women tended to be more enthusiastic than men.

In the current research, a statistical analysis was carried out to identify whether the characteristics of age, gender, length of service, union membership and job grade appeared to influence the responses. In the case of age and trade union membership, T-tests were carried out to distinguish significant differences between the responses for males against females and for union members as against non-union members. The results are show in Tables 33-34. In the case of the other characteristics, correlation analysis was carried out to identify if responses moved in line with age, length of service and job grade. The results are shown in Table 35-36.

5.9.2 Trade union membership

Table 33 Union responses T Test –'Before' questionnaire

	Means		Standard deviation	
	Union n =34	**Non-Union** n =66	**Union**	**Non-union**
Fairness	5.01***	4.07***	1.65	1.63
Relation	3.85	3.60	1.18	1.49
Motivation	5.02	4.78	1.53	1.30
Principle	4.50**	3.77**	1.77	1.53
Culture	4.57	4.20	1.32	1.27
Scale of payment (Reverse question)	3.82	3.53	2.08	1.61
Pay satisfaction	5.71***	4.62***	1.60	1.82

(T-test P< .05 = *, P<.01 = ** P< .001 = ***)

Table 34 Union responses T test–'After' questionnaire

	Means		Standard deviation	
	Union n =36	**Non-Union** n =76	**Union**	**Non-union**
Fairness	4.46***	3.32***	1.67	1.45
Relation	4.24	3.84	1.34	1.58
Motivation	4.94*	4.43*	1.37	1.50
Principle	4.58***	3.52***	1.56	1.52
Culture	4.75**	4.14**	1.38	1.53
Scale of payment (Reverse question)	2.75*	3.39*	1.72	1.63
Pay satisfaction	4.97*	4.34*	1.64	1.88

(T-test P< .05 = *, P<.01 = ** P< .001 = ***)

The results show a clear significant difference between the responses of trade union and non-trade union employees in both questionnaires with a more negative attitude shown by trade union members. The null hypothesis 8a was thus rejected.

The effect became stronger after the scheme had been operating for a year. The second questionnaire showed the differences to be significant in all but one of the scales. The differences were especially strong in the scales for Fairness and Principle emphasising that there is a philosophical opposition to the concept of performance pay among trade union members. The one exception is with the scale of payment question (reversed) where trade union members in the before questionnaire had a greater degree of belief that the level of payment would be sufficient to motivate. However, by the time of the second questionnaire, this had been reversed. Here, the effect was dramatic with the mean score dropping from 3.82 to 2.75 whereas for non-trade unionists, the drop was much less (from 3.53 to 3.39). The disillusionment for trade unionists was quite severe.

It might have been expected that the beliefs of trade unionists would have been consistent, reflected in low standard deviation scores. This was not actually the case. The level of standard deviation varied across the scales for both trade unionists and non-trade unionists. Despite trade unionists having strong views on Fairness and Principle, there was a surprisingly high variation in views reflected in a standard deviation greater than that for non-trade unionists. In their relations with their manager (Relation scale), however, non-trade unionists had a much greater variety of views.

The result concerning trade union membership varies with both the Templeton project and the Thompson survey where no such differences were found between union and non-union membership.

5.9.3 Gender

Table 35 Responses by Gender – 'Before' questionnaire

	Mean		Standard deviation	
	Male n = 69	Female n =32	Male	Female
Fairness	4.62*	3.95*	1.72	1.50
Relation	3.92**	3.20**	1.34	1.37
Motivation	5.17***	4.21***	1.34	1.25
Principle	4.09	3.86	1.67	1.58
Culture	4.40	4.18	1.24	1.37
Scale of payment (Reverse question)	3.65	3.53	1.74	1.85
Pay satisfaction	5.17	4.65	1.75	1.91

(T-test, P< .05 = *, P<.01 = ** P< .001 = ***)

In the first questionnaire (Table 35) there are some clear significant differences between the attitudes of males and females overall towards how they expect the scheme to work but the picture is mixed. Their views on the principle of the scheme are similar, and their views as to whether the scheme will alter the organisation's culture only vary slightly. On the other hand, in the scale on Fairness, Relationship with their Manager and Motivation there are significant differences, especially on whether the scheme will motivate. Interestingly, satisfaction with their existing pay shows much less difference with both genders indicating little satisfaction.

Table 36 Responses by Gender T test – 'After' questionnaire

	Mean		Standard deviation	
	Male n = 83	Female n =31	Male	Female
Fairness	3.99***	2.97***	1.68	1.10
Relation	4.12***	3.16***	1.43	1.56
Motivation	4.92***	3.83***	1.45	1.28
Principle	4.31***	2.82***	1.65	0.99
Culture	4.58***	3.75***	1.47	1.43
Scale of payment (Reverse question)	2.96***	3.71***	1.65	1.65
Pay satisfaction	4.90***	3.68***	1.75	1.72

(T-test $P < .05 = *$, $P < .01 = **$ $P < .001 = ***$)

By the time of the second questionnaire (Table 36), the gender difference has extended considerably. The female group shows much more positive (lower, except in the reversed scale of payment scale) scores on all of the scales. This is very marked on 'principle' (from 3.86 to 2.82) and 'fairness' (from 3.95 to 2.97). The satisfaction of the female group with their pay has also markedly improved (from 4.65 to 3.68) whereas for males this is much less so (from 5.17 to 4.90). **In each case, the differences between male and female perceptions produce some highly significant differences (at the .001 level). The null hypothesis 8b was thus rejected.**

A further development has occurred over the 'scale of payment' scale. In this reversed scoring, males have changed their viewpoint markedly from 3.65 to 2.96 indicating that the experience of the scheme has proved to them that the actual level of payments under the scheme is insufficient to motivate employees. For females, on the other hand, experience has made their views move marginally in the opposite direction (from 3.53 to 3.71) getting close to a neutral stance. They still believe that payments are insufficient but only marginally so.

Interestingly, the views of females have also become more coherent than those of males, as indicated by the standard deviations. In the 'before' questionnaire, the level of deviations were split almost evenly between males and females. Males were considerably higher for 'fairness' and marginally higher for motivation and 'principle' while females were higher for 'culture', scale of payment ' and 'pay satisfaction'. By the time of the second questionnaire, standard deviations for males were greater in five cases with females only higher in 'relation' and equality in 'scale of payment' The views of females over 'fairness' and 'principle' had markedly become more coherent with a reduction in standard deviations from, respectively, 1.50 to 1.10 and 1.58 to 0.99. This was a further indication that females, *as a whole,* had found the scheme to be fair and that it served to increase their perceptions that it was a good principle. That is not to say that the experience had made them regard the scheme as much of a motivator. They still had wide views on this with no change in the standard deviation. Nor did they consistently think it had changed the culture. The standard deviation had actually risen here.

Overall, then, it can be said that the data supports findings that female employees are more positive towards performance pay. In itself, this is a significant finding in that it appears to counter the prevailing stereotype that females are generally opposed to the competitive element involved in performance pay or the distinct ratings that label employees under a performance pay system and that females would prefer that team working is given greater emphasis. The demographic structure of the organisation is that the vast majority of females work in the administrative chapter and have not yet permeated the technical or installation departments. This would appear to be discriminative in itself but does not seem to have influenced the responses. There were no responses that would indicate any sense of gender discrimination.

5.9.4 Age

Tables 37 and 38 show that age has a positive relationship with most of the scale variables indicating that the older employees are, the more negative their views of performance pay. A significant correlation occurs for the joint questionnaires against the scales for Fairness, Motivation, Culture and Principle. However, the effect carries only a limited degree of significance. The highest correlation overall occurs with the principle of performance pay where the significance is at the .01 (**) level. The level of significance slips the more practical implications come into play. For example, it becomes almost non-existent on the scale of relationship with manager and pay satisfaction indicating that age, here, is an irrelevant factor.

Table 37 – Correlations comparing employee characteristics – joint questionnaire

	Age	Grade	Personal Rating	Length of service	Position in grade scale
N =	*219*	*211*	*62*	*217*	*215*
Fairness	.146*	-.037	-.137	.115	.047
Relation	.054	.130	-.033	.045	.112
Motivation	.142*	.123	-.040	.115	.186**
Culture	.194*	-.055	.014	.076	.105
Scale (rev)	-.025	.099	-.033	-.044	-.074
Pay satisfaction	-.027	-.073	-.078	-.029	-.074
Principle	.221**	.019	-.176	.199**	.147*

*Significant at 0.1 level
**Significant at 0.05 level

Table 38 – Correlations comparing employee characteristics – before and after questionnaires

	Age		Grade		Personal Rating		Length of service		Position in grade scale	
	Before (q36)	After (Q41)	Before (Q38)	After (Q43)	Before	After (Q44)	Before (Q39)	After (Q45)	Before (Q41)	After (Q47)
N =	*102*	*112*	*98*	*111*		*62*	*101*	*111*		*110*
Fairness	.221*	.156	-.050	.014	N/a	-.137	.106	.194*	-.051	.137
Relation	.078	.005	.112	.128	N/a	-.033	-.004	.057	.085	.144
Motivation	.232*	.099	.098	.161	N/a	-.040	.090	.163	.141	.226*
Culture	.313*	.108	-.009	-.089	N/a	.014	.078	.076	.134	0.83
Scale of payment(rev)	.071	-.063	.112	.117	N/a	-.033	-.106	.040	-.088	-.069
Pay satisfaction	.029	-.037	-.051	-.070	N/a	-.078	-.073	0.38	-.233*	.073
Principle	.231*	.231*	-.093	.048	N/a	-.176	.110	.294**	.149	-.069

*Significant at 0.1 level
**Significant at 0.05 level

The correlation has reduced at the time of the second questionnaire where only the scale of principle remains significant. In other words, experience of the scheme reduces the effect of the age of the employee. The result in the case of 'Motivation' and 'Culture' has dropped sharply. **Taken overall, age appears on the surface to be only a limited indicator where performance pay is concerned. The Null hypothesis 8c is not proven.**

5.9.5 Employee Grade

It could be expected that employees who are on higher grades would be expected to be more positive towards performance pay. Performance pay is a management invention and those employees closer to management grades would be expected to give it more enthusiasm. **Tables 37 and 38 show no support for this hypothesis and the Null hypothesis 8d is proven. There is a small tendency, in fact, for negative views to increase with the level of grade (a positive correlation)**, as appeared more strongly in the Marsden and Richardson (1991) research. The highest results were against the scales for 'motivation' and 'relation with manager'. The higher the grade, the more likely employees are to believe the scheme will not motivate them and have less confidence that their manager will take the scheme seriously. However, this effect in this research is only slight and not significant. Nor is there any substantial difference between the 'before' and 'after' results.

5.9.6 Personal Rating

In question 44 of the second questionnaire, respondents were asked to identify their overall rating. Only around 55% decided to complete this entry for reasons that were not clear. However, there was sufficient data to test the hypothesis.

It could be expected that employees who have good ratings would be more positive towards the scheme and vice versa, as found by Marsden and Richardson (1991). The evidence shown in Tables 37 and 38 provides little support for this. **Although the correlations are generally negative, indicating that those with low ratings gave higher (more negative) responses, none of them are significant. The Null hypothesis is not proven.** Only the scale of 'fairness' and 'principle' approaches a substantial score. Due to the lower percentage of responses here, it is difficult to draw a sure conclusion that the level of personal rating has no effect on employee perceptions of the scheme.

5.9.7 Length of Service

Questions 39 (Q1) and 45 (Q2) asked employees to give their length of service. The correlation analysis with responses on the performance pay scheme showed a mix set of figures as shown on Tables 37 and 38. Taking both questionnaires together, there was a strong correlation of service with a lack of belief in the 'principle' of performance pay. Otherwise, **although there was a generally positive correlation, it was not at a significant level. The Null hypothesis 8e was not proven**. Employees with longer service, therefore, would gravitate towards having negative views of performance pay, but not significantly negative. This generally supported findings in the Marsden and Richardson (1991) research.

Looking at the two questionnaires separately, this tendency towards a negative view of performance pay has accentuated from the first to the second questionnaire. The movement has been especially strong as regards the 'principle' scale and the 'Fairness' scale to the extent that 'fairness' correlation reaches a significant level (0.05) and 'motivation' is not far off. However, taking all the results together, the position cannot be said to be clear-cut.

An interesting change is the movement on the 'scale of payment' (reverse) where the correlation has changed from being negative to being positive. As this is a reverse question it would indicate that experience of the scheme for, say, long-serving employees, has changed their views from considering that payments under the scheme may be insufficient to the view that they probably may be sufficient. However, the movement is comparatively small. This is difficult to explain.

5.9.8 Position in Grade Scale

The final characteristic investigated was the position of the employee's in their salary scale for their particular grade. Position on the scale in this organisation has traditionally been determined by service so employees move up their scale through annual or bi-annual increments. However, in recent years, a number of the organisations that merged or were taken over to make up the current Telecoms organisation, used the employees' performance as an influence in salary determination. The position at the time of the research was, therefore, mixed. If salary was determined by service, then one would expect the length of service results to be replicated. If it was determined by performance, then one would tend to expect that employees on the top of the scale to be positive about performance pay, shown as a negative correlation.

The actual results shown on Tables 37 and 38 were mixed, with most reflecting a similarity with those for length of service. Two major differences were apparent. There was a high degree of positive correlation on the motivation scale, which appeared to indicate that employees on the higher part of the scale did not believe that the scheme motivated while those on the lower part believed that it did motivate. As the level of salary increase depended in part on the employee's current position on the scale (see salary review matrix Table 12) then these findings give support to the use of such a matrix. The thinking behind the matrix is that employees at the top of the scale should be the top performers whereas those at the bottom of the scale are employees whose performance has room to improve. Therefore, if one of the latter receives a high rating reflecting high performance, then they deserve to receive a higher increase than average and move up the scale. On the other hand, if an employee at the top of the scale performs well, this merely reinforces their position as a high performer on a higher salary and their pay increase should be average. If any employee in this latter group performs badly, they should not receive any increase which would cause them to drop down the scale.

There is considerable discussion in reward circles as to the appropriate use of such a matrix. There is no doubt that it may motivate those on the lower part of salary scales (as appears to be the case in this research). It does leave a difficulty, however, in motivating those on the top of their scale, especially as many regard being placed at the top of the scale to be a reward for previous past performance which cannot be taken away. It is one of the classic 'Kohn's punishments' to say to this group that the best they can do with a high performance in the salary period is to receive an average salary increase, whereas anything less will mean a lower than average salary increase. The author has found that experienced reward practitioners are less than convinced as to this explanation at a number of specialist reward course he has run for the

Chartered Institute of Personnel and Development. In practice, good performers at the top of their scale are often paid a supplementary bonus that is not added to their salary in recognition of continuing high performance.

The second difference was the movement between the first and second questionnaire in the response to principle. In the 'before' questionnaire, there was a significant (.05*) correlation recorded indicating that employees at the higher end of the scale disagreed with the principle of performance pay and vice versa. By the time of the second questionnaire, this had been reversed to leave a slight negative (not significant) correlation. This could be regarded as something of a *culture change*. As employees at the top of the scale increasingly realise that their salary determination becomes more reliant upon their performance, then they may come to believe in the principle a little more. In the case of those at the bottom of the scale, the experience of disappointment of some of them will reduce their belief in the principle of performance pay. The two factors may act to cancel themselves out, leaving a more or less neutral situation recorded in this research.

Overall, perceptions towards performance pay are not correlated with position on the grade scale so the Null hypothesis is proven.

5.10 Summary of the hypotheses associated with employee characteristics

A summary of the hypothesis tested is set out in Table 39:
The overall findings of this section will be discussed further in chapter 6.

5.11 Cluster Analysis

The results in the analysis of characteristics were generally neutral, with few clear features that may influence employees' perception of the subject. Trade unionists generally opposed performance pay while women were in favour. For the other characteristics, no significant pointers emerged by taking either both 'before' and 'after' separately or as one group. However, an analysis of the results showed that standard deviations in many of the areas were quite high reflecting a wide variety of views. Despite the overall improvement shown in the second questionnaire, there was also a sense from some of the 'after' respondents that the scheme had not in any way

Table 39 Summary of the Outcomes of the Employee Characteristics Hypotheses

Sub-hypothesis 8a – Trade union membership That there is no difference in perception of performance pay between trade unionists and non-trade unionists.	**Null hypothesis rejected**. Significant association between trade union membership and negative perception of performance pay.
Sub-hypothesis 8b –Gender That there is no difference in attitude towards performance pay between men and women.	**Null hypothesis rejected.** Significant difference between perceptions by female (positive) and male (neutral to negative)
Sub-hypothesis 8c – Age That the age of the employee does not affect the attitude towards performance pay	**Null hypothesis not proven.** Differences associated with age but not significant.
Sub-hypothesis 8d – Level of seniority That the seniority of an employee does not affect the attitude towards performance pay.	**Null hypothesis supported**. Minor negative association between age and perception of performance pay
Sub-hypothesis 8e – Employee rating That the personal ratings obtained under the scheme do not influence the attitude towards performance pay.	**Null hypothesis not proven.** Evidence of association between level of employee rating and perception of performance pay but not significant.
Sub-hypothesis 8f – Length of service That the length of service of the employee does not influence the attitude towards performance pay.	**Null hypothesis not proven.** Evidence of association between length of service and lack of belief in performance pay but not significant.
Sub- hypothesis 8g – Position in grade scale That the position in the grade scale does not influence the attitude towards performance pay.	**Null hypothesis supported**. No association shown between position on grade scale and perception of performance pay.

convinced them of the benefits of performance pay as some of the comments recorded earlier signify.

For this reason, **Cluster analysis** was carried out to try to identify if groups of employees who had positive or negative views of the scheme had any similar characteristics. Cluster analysis was utilised to sort employee responses into a number of homogenous groups (Saunders 1999). This is an interdependence method where the relationships between objects and subjects are explored without a dependent variable being identified. SSPS provides a technique for identifying the employees whose responses draw them into groups reflecting their overall attitude towards the performance pay scheme. Previous research, as shown in the literature survey, identified attitudes towards performance pay by way of characteristics but no research has been identified where groups that are strongly for or against performance are identified and analysed to see if they have any characteristics in common.

This analysis was carried out with both sets of questionnaires. In both analyses, three sets of employees were identified. In the first questionnaire ('before') the clusters were not very clearly delineated and no detailed analysis has been carried out for the benefit of this dissertation. In the second questionnaire, however, after employees had experience of operating within the workings of a performance pay scheme, there were three groups who had a high degree of separation. These groups are shown in Appendix 9 and a note accompanies the chart identifying how the choices of clusters were made. The results of this separation will provide the basis of this cluster analysis and show some interesting insights into the research findings.

'After' Questionnaire

The first group, totalling 16 employees, was strongly negative against the scheme. The second (middle) group, 63 strong, had views that did not vary too widely from the overall means. The third group, totalling 30 employees, was generally positive towards the scheme. The two groups at the extremes will be the subject of further discussion and analysis.

The way the three group's opinions varies is shown in Table 40 which summaries the means and standard deviations for each of the questions. This shows clearly the degree of cohesiveness in respect of a number of scales. In the Positive cluster, for example, the standard deviations are nearly all close to 1.00 in the first seven scales. In the majority of the questions making up the Fairness and Relation scales, the standard deviation is less than one. For the negative cluster, the standard deviations on the motivation scale are even lower, averaging only 0.58 and actually recording a score of zero on Question 35 (Performance pay has helped employees' morale in general), where all 16 respondents gave a '7' response. The middle cluster, as perhaps to be expected, has higher standard deviations in general but they also show a coherent pattern throughout.

Table 40 Summary of views of three cluster groups – 'after' questionnaire

	Positive (n=30)		Middle (n=63)		Negative (n=16)		Overall (n=109)	
SCALES	**Mean**	**s.d**	**Mean**	**s.d**	**Mean**	**s.d.**	**Mean**	**s.d**
1. Fairness								
Q19	2.43	1.01	3.63	1.46	6.25	0.77	3.69	1.73
Q22	2.57	1.28	4.16	1.72	6.56	0.63	4.07	1.93
Q30	2.33	0.92	3.59	1.68	6.25	1.06	3.63	1.87
Q31	2.43	0.97	3.41	1.43	6.25	1.18	3.56	1.75
Q40	2.13	0.94	3.95	1.84	5.88	1.78	3.73	2.01
Fairness average	**2.37**	**1.02**	**3.75**	**1.63**	**6.24**	**1.13**	**3.70**	1.86
2.Relationship with manager								
Q15	2.17	0.95	3.41	1.56	4.44	1.93	3.22	1.65
Q16	2.70	0.99	4.38	1.69	6.13	1.15	4.17	1.81
Q25	2.50	0.90	3.98	1.66	6.38	0.72	3.93	1.82
Q36	3.50	1.70	4.98	1.60	6.06	1.69	4.73	1.83
Average - Relationship	**2.72**	**1.14**	**4.19**	**1.53**	**5.75**	**1.37**	**4.35**	**1.78**
3.Motivation								
Q12	2.67	1.03	4.67	1.47	6.50	0.82	4.39	1.77
Q13	2.70	1.02	4.78	1.42	6.56	0.73	4.47	1.76
Q18	3.20	1.19	5.22	1.48	6.81	0.54	4.90	1.75
Q21	3.00	1.29	4.56	1.42	6.31	1.20	4.39	1.70
Q28	2.77	1.01	4.56	1.30	6.63	0.50	4.37	1.66
Q34	2.80	1.10	5.02	1.37	6.94	0.25	4.69	1.79
Q35	3.83	1.05	5.51	1.13	7.00	00	5.27	1.44
Ave- Motivation	**3.00**	**1.10**	**4.90**	**1.37**	**6.68**	**0.58**	**4.64**	**1.70**
4. Cultural change								
Q26	3.70	1.18	5.10	1.34	6.88	0.34	4.97	1.55
Q32	2.37	0.89	3.89	1.69	5.94	1.61	3.77	1.86
Ave – culture	**3.03**	**1.03**	**4.50**	**1.51**	**6.41**	**0.97**	**4.37**	**1.70**
5.Scale of payment (reverse) Q24	**3.97**	**1.38**	**2.92**	**1.54**	**2.63**	**2.28**	**3.17**	**1.69**
6.Satisfaction with Pay (Q 23)`	**3.27**	**1.60**	**4.79**	**1.65**	**6.00**	**1.37**	**4.55**	**1.82**
7.Principle of performance pay								
Q14	2.40	1.10	3.33	1.59	6.38	1.02	3.52	1.87
Q39	2.33	0.76	4.75	1.65	6.63	0.62	4.36	1.94
Ave- Principle	**2.37**	**0.93**	**4.04**	**1.62**	**6.50**	**0.82**	**3.94**	**1.90**
8.Teamworking								
Q17	4.60	1.75	4.41	1.96	2.38	1.71	4.17	2.00
Q20	1.70	0.79	2.25	1.40	3.69	2.33	2.31	1.56
Q27	2.27	1.23	3.35	1.71	5.06	1.91	3.30	1.83
Q29	2.03	0.76	2.24	1.23	4.56	2.28	2.53	1.57
Q33	3.37	1.40	4.68	1.31.	6.88	0.34	4.64	1.65
Q38	3.10	0.96	4.70	1.42	6.50	0.82	4.52	1.63
9. Return to previous system (reverse)(Q37)	**5.23**	**1.59**	**4.16**	**1.77**	**1.44**	**0.63**	**4.06**	**1.99**

A detailed analysis now follows on the negative and the positive cluster.

5.11.1 Negative Cluster

Having identified a negative cluster of 16 employees, the next stage is to analyse their personal characteristics and compare them with the total sample. This is carried out in Table 41.

Table 41
Characteristics of 16 employees with strong negative views on performance pay

	Sub set		Whole sample	
	No	%	No	%
1. Analysis by sex				
Males	16	100	85	71
Females	0	0	31	26
Details not given	-	-	3	3
Total	16	100	119	100
2. Analysis by trade union membership				
Trade union members	10	63	35	29
Non-members	5	31	78	66
Details not given	1	6	6	5
Total	16	100	119	100
3. Analysis by job grade				
Grade 1 (lowest)	-	-	1	1
Grade 2	-	-	1	1
Grade 3	1	6	3	3
Grade 4	-	-	19	16
Grade 5	1	6	21	17
Grade 6	10	63	36	30
Grade 7	2	13	18	15
Grade 8	-	-	11	9
Grade 9	-	-	2	2
Details not given	2	13	7	6
Total	16	101*	119	100
Average grade	**5.9**		**5.4**	
4 Analysis by Service				
Under 1 year	-	-	3	3
1-3 years	-	-	19	16
4-6 years	1	6	16	13
7-9 years	2	13	17	14
10-20 years	3	19	27	22
Over 20 years	9	56	33	28
Details not given	1	6	4	4
Total	16	100	119	100
Average Service	**22.4**		**14.3**	
5. Analysis by Age				
16-20	-	-	-	-
21-25	-	-	7	6
26-30	-	-	11	9
31-35	2	13	21	17
36-40	1	6	17	14
41-45	3	19	21	17
46-50	5	31	17	14
51-55	3	19	16	13
56-60	2	13	4	4
61-65	-	-	4	4
Details not given	-	-	4	4
Total	16	101*	119	99*
Average Age	**46.8**		**40.6**	
6. Position in pay scale				
Lower end of range	2	13	31	28
Middle of range	8	50	38	34
Upper end of range	-	-	15	13
Don't know	6	37	28	25
Total	16	100	112	100

- total not 100% due to rounding

By concentrating on this group of 16 employees who have the most negative views of performance pay, it is possible to highlight certain characteristics about this important group. They are important because the strength of their views not only influence the statistics of this research but may present a hard core of opposition to the development of performance pay schemes.

Here, a number of clear differences immediately show themselves. Firstly, they are an *all-male group*. In the whole sample, there are 31 females representing 26% of the sample but not one appears in this negative cluster. There is also a much stronger representation of *trade union members*. 63% of the negative cluster are members compared to only 29% of the total sample. In terms of *seniority* in the organisation, the average grade level is somewhat higher at 5.9 compared to 5.4 for the whole sample. More important, most of the sample is concentrated in grade 10, a grade just above the middle rank, indicating a homogenous group.

The average *service* is very much higher at 22.4 years for this group compared to the whole sample at 14.3 years. More than half the group has over 20 years service. They are also somewhat older on average at 46.8 years compared to 40.6 for the whole sample. In terms of the *position in the pay scale*, none of the negative cluster are in the upper end of the range, compared to 13% of the whole sample.

In terms of their overall individual rating, only seven reported the their figures which were generally mixed. One other reported that they 'have forgotten but remember it was lower than expected'. Given the difficulties with this measure, not too much should be read into this specific result.

To sum-up, those employees with strong negative views are characterised by being male, trade union members, older with longer service and being in middle grades. These findings are crucial in being more a more precise collection of characteristics than those generalised findings for all employees in other research. If this research can be generalised, it allows an organisation to be able to pinpoint the groups that are likely to strenuously oppose performance pay and who will need to be won over.

The findings are also of interest in that there is some variation with previous research findings as detailed in the literature survey. For instance, union membership has not always been found to be significantly associated with a negative stance. Long service has often been associated with loyalty and commitment, rather than strenuous opposition to company initiatives.

Not surprisingly, the overall reactions of the negative cluster to their combined rating (Question 1) was equally negative as shown in Table 42.

Table 42 Negative Cluster -Response to 'after' Questionnaire , Question 1
What has been your overall reaction to your combined ratings

	Negative cluster		Whole sample	
	Nos	%	Nos	%
Very fair 1	-	-	16	14
Fair 2	2	13	51	43
Uncertain 3	4	25	30	27
Unfair 4	5	31	12	10
Very Unfair 5	5	31	7	6
Total	**16**	**100**	**116**	**100**
Average rating	**3.8**		**2.5**	

Out of the 19 employees in the whole sample who found their combined ratings (objectives and contribution) to be 'unfair' or 'very unfair', over half (10) were in this group of negative employees.

A breakdown of the separate ratings for objectives and contribution follows the same pattern as shown in Table 43. Reaction to the 'soft' ratings yielded a slightly higher degree of dissatisfaction. This may be because of the greater subjectivity involved in these ratings. One respondent commented:

- 'Most of the ratings are total guesswork or opinion of one person. Assessment should be on engineers doing job properly – 'are customers satisfied?'

Most of the criticisms were saved, however, for the way objectives were set, monitored and assessed.

- 'Facts were incorrect. Goalposts were moved. Manager did not know us. It was all guesswork.'
- 'The objectives were set without any input from me. The assessment was largely based on conjecture and guesswork on the part of management.'
- 'No contact with me so how was assessment achieved?'
- 'The objectives were unrealistic and unobtainable and the employee cannot influence the outcome.'

Table 43 Negative Cluster -Response to 'after' Questionnaire , Questions 4 and 6 What has been your reaction to your ratings under objectives and contribution

	Negative cluster		Whole sample	
	Nos	**%**	**Nos**	**%**
Objectives				
Very fair 1	-	-	12	10
Fair 2	3	19	59	49
Uncertain 3	6	38	22	19
Unfair 4	4	25	13	11
Very Unfair 5	2	13	3	3
No response	1	6	10	8
Total	**16**	**101***	**119**	**100**
Average rating	**3.3**		**2.4**	
Contribution				
Very Fair 1	-	-	15	13
Fair 2	3	19	50	42
Uncertain 3	4	25	30	25
Unfair 4	5	31	7	6
Very Unfair 5	3	19	4	4
No response	1	6	13	11
Total	16	100	**116**	100
Average rating	**3.5**		**2.4**	

It does not surprise that a number of hostile comments about the performance pay scheme, as a whole, emanate from this sub-group. A number were simple and direct:

- 'Scrap it!' (a number of examples repeated this expression)
- 'Do away with Performance pay'

Others were more measured:

- 'Performance pay may be a brilliant idea but, when all is said and done, it is no different to a manager assessing you. It just wastes a lot more time, paper and money. It probably means that each member of staff is thought about a bit more carefully but the outcome is the same from a management point of view. From the employees' point of view, it just seems to drop morale even lower. Finally, performance pay can and is used by some managers as a weapon. People are asked to do a job, i.e. out of hours. You have a previous commitment and are unable to help. You now have 0% for flexibility and so on.'

Further comments included two that demonstrated the deeply held philosophical opposition to the principle of performance pay:

- 'You have no control over your performance pay. You are in as much control of your destiny as the white rat has over the experiment in which it is involved.'
- 'Typical mundane methods of treating human resources when under social troubles in Britain as at present. Remember people are human and not robots.'

These employees saw the of performance pay very much as a method of enforcing control, which has been identified in this research as a managerial objective of performance pay. They saw little evidence of the 'softer' or 'cultural' objectives, such as increasing trust or operating in a fair environment.

5.11.2 The Positive Cluster

The cluster analysis has identified 30 employees (27%) whose views were generally positive towards the scheme. Table 44 identifies their individual characteristics.

It stands out immediately that this group contains a high proportion of *females* (47% compared to the whole sample of 26%) and a low proportion of *trade union members*. (17% compared to 29%) The *grade position* average was not significantly different to the average but there was a much greater representation of employees at both the higher end (Grades 8 and 9) and at the lower end (grades 4 and 5). The middle grades 6 and 7 were under represented significantly.

Table 44 Characteristics of 30 employees with positive views on performance pay

	Sub set		Whole sample	
	No	%	No	%
1. Analysis by sex				
Males	15	50	85	71
Females	14	47	31	26
Details not given	1	3	3	3
Total	**30**	**100**	**119**	**100**
2. Analysis by trade union membership				
Trade union members	5	17	35	29
Non-members	24	80	78	66
Details not given	1	3	6	5
Total	30	100	119	100
3. Analysis by job grade				
Grade 1 (lowest)	-	-	1	1
Grade 2	-	-	1	1
Grade 3	1	3	3	3
Grade 4	10	33	19	16
Grade 5	6	20	21	17
Grade 6	5	17	36	30
Grade 7	1	3	18	15
Grade 8	4	14	11	9
Grade 9	2	7	2	2
Details not given	1	3	7	6
Total	30	100	119	100
Average grade	**5.5**		**5.4**	
4 Analysis by Service				
Under 1 year	-	-	3	3
1-3 years	7	22	19	16
4-6 years	2	7	16	13
7-9 years	6	19	17	14
10-20 years	6	19	27	22
Over 20 years	8	26	33	28
Details not given	1	7	4	4
Total	30	100	119	100
Average service	**13.5**		**14.3**	
5. Analysis by Age				
16-20	-	-	-	-
21-25	3	10	7	6
26-30	2	7	11	9
31-35	7	22	21	17
36-40	2	7	17	14
41-45	4	13	21	17
46-50	5	16	17	14
51-55	6	19	16	13
56-60	-	-	4	4
61-65	-	-	4	4
Details not given	1	3	4	4
Total	30	97*	119	99*
Average Age	**40.1**		**40.6**	
6.Position in Pay scale				
Lower end of range	12	40	31	28
Middle of range	12	40	38	34
Upper end of range	2	7	15	13
Don't know	4	13	28	25
Total	30	100	112	100

* total not 100% due to rounding

In terms of *age,* the proportions in the younger groupings (21-35) had a somewhat higher representation as did those 46-55 with the middle-aged group rather unrepresented proportionately. *Service* tended to be lower on average but not significantly. The *position in the pay scale* also tended towards the lower end but this was blurred by the lower proportion who did not know compared to the full sample.

To sum up, this group was the mirror image of the negative cluster, being non trade union members, higher female representation, fewer employees in the middle grades or middle aged with somewhat lower service.

It was, again, unsurprising that this cluster had a positive view of their Ratings, which emerged from the performance management process, as shown in Table 45. Their average rating was 1.9 and half of the top rating (very fair) came from this subgroup.

Table 45 Positive Cluster - Response to 'after' Questionnaire , Question 1 What has been your overall reaction to your combined ratings

		Positive cluster		Whole sample	
		Nos	%	Nos	%
Very fair	1	8	27	16	14
Fair	2	19	63	51	43
Uncertain	3	1	3	30	27
Unfair	4	2	12	12	10
Very Unfair	5	-	-	7	6
	Total	**30**	**100**	**116**	**100**
	Average rating	**1.9**		**2.5**	

The tendencies are even clearer when the responses to questions concerning their specific ratings on 'contribution' and 'objectives' are concerned as shown in Table 46. The average rates are much higher than for the whole sample and only one respondent out of 30 has regarded a rating unfair.

There are fewer personal comments from this positive cluster in proportion to their size. Perhaps satisfied customers have less to say, and especially less to complain about. The few who contributed were either losing for an ideal of consistency within the scheme or had a view relating to the practical issues of team relationships and team working:

Table 46 Positive Cluster -Response to 'after' Questionnaire , Questions 4 and 6 What has been your reaction to your ratings under objectives and contribution

	Positive cluster		Whole sample	
	Nos	%	Nos	%
Objectives Q6				
Very fair 1	6	20	12	10
Fair 2	21	70	59	49
Uncertain 3	2	7	22	19
Unfair 4	1	3	13	11
Very Unfair 5	-	-	3	3
No response	-	-	10	8
Total	**30**	**100**	**119**	**100**
Average rating	**1.9**		**2.4**	
Contribution Q4				
Very Fair 1	**8**	27	15	13
Fair 2	17	56	50	42
Uncertain 3	3	10	30	25
Unfair 4	-	-	7	6
Very Unfair 5	-	-	4	4
No response	2	7	13	11
Total	30	100	**116**	100
Average rating	**1.7**		**2.4**	

- The Performance pay this time round is fairer I think because the sales target is the 'team target'. I am pleased that this has not lessened my motivation to sell.
- I feel that Performance has created very selfish views to some individuals, i.e.'this is nothing to do with me' and they therefore refuse to accept responsibility. Some departments don't conform to proper or correct procedures as this goes against their Performance pay objectives.
- The scheme is excellent but it required more accuracy and feed-back to individuals requires procedural time tabling in line with staff dialogue or similar.
- The 'contribution' rating needs re-thinking in line with lower grade personnel.

An interesting final cluster analysis (Table 47) shows support for Equity theory (Adams 1965). The positive cluster reports a high score for the fairness of their individual ratings under 'contribution' and 'objectives'. This averaged 1.9 compared to an average score for the whole sample of 2.5. They also scored much higher on their individual motivation.

Table 47 – Cluster analysis and Equity Theory – after questionnaire

	Positive cluster	**Negative cluster**	**Whole sample**
Q1 Reaction to combined ratings	1.9 (Fair)	3.8 (unfair)	2.5
Q4 Reaction to contribution ratings	1.7 (Fair)	3.5 (unfair)	2.4
Q6 Reaction to objectives ratings	1.9 (Fair)	3.3 (uncertain)	2.4
Q7 Satisfaction with salary arising from performance pay	2.2	4.1 (dissatisfied)	2.9
Q12 Performance pay has given me a greater incentive to get my work priorities right	2.67	6.50	4.39
Q13 Performance pay has given me the incentive to work beyond the immediate requirements of my job	2.70	6.56	4.47
Q28 Performance pay has encouraged me to give a sustained performance at work	2.77	6.63	4.37
Q34 Performance pay has raised my motivation at work	2.80	6.94	4.69

This demonstrates that those groups of employees who considered that they had been the recipients of procedural justice considered that the scheme motivated them. On the other hand, those employees who felt that procedural justice was not in place gave poor scorings on the motivation scale. The two issues were linked very closely together.

Certainly the two groups produced substantially different results. It the final chapter, it will be discussed how, if at all, the organisation can manage to convert the negative cluster towards the positive viewpoint and how to make use of the positive cluster is discussed.

5.12 Summary of Findings of Telecoms Data

Chapter 5 has been chiefly concerned with investigating the outputs of a Performance pay scheme, researching the employees' views and perceptions of its operation and success. However, it was also possible to examine the objectives underpinning the introduction of the scheme.

A number of findings emerged from the statistical analysis of the outputs of the scheme. A summary of the hypotheses that were tested are set out in Table 48

The major elements can be summarised as follows:

- In the longitudinal aspect of the study, the data from the 'after' questionnaire shows the employees having a much more positive view of the scheme following one years' experience.

- Employees have equivocal views as to the 'fairness' of the scheme and are not convinced that pay is distributed in line with contribution. They point to many fractures in the scheme design and its operation in practice. However, the overall view in the 'after' questionnaire veers towards the positive.
- Employees are quite clear that the scheme does nothing to improve motivation or commitment. Evidence supports the working of Equity Theory
- There is no support for the view from employees that performance pay has helped to facilitate a cultural change, a view that did not improve in the 'after' questionnaire.
- Employees showed general dissatisfaction with their level of pay, although there was some improvement in the 'after questionnaire'. There was no indication, therefore, that performance pay increased retention.
- There was continued support for the principle of performance pay, despite the above results and there was no widespread view that the scheme should be abandoned.
- There was support for incorporating team elements into the performance management process and that individual performance pay worked against effective team working.
- Employee characteristics analysis showed that women were more positive towards performance pay than men, that trade union members were generally antagonistic and that younger employees gave it more support than older employees (but not significantly so).

Figure 48 Summary of hypotheses findings – Telecoms

Hypothesis one - FAIRNESS That performance pay contributes to the objective of distributing pay increases in line with employee contribution	Hypothesis not proven. Employees very mildly positive but not significantly so. Problems due mostly to difficulties with performance management scheme
Hypothesis two – MORALE AND COMMITMENT That performance pay contributes towards the objective of increasing employee morale and commitment	Hypothesis rejected. Employees believe that PERFORMANCE PAY does not increase morale or commitment. Again, difficulties with nature of scheme and way it is implemented.
Hypothesis three - MOTIVATION That performance pay contributes to the objective of motivating the work force	Hypothesis rejected.. Employees do not believe that PERFORMANCE PAY increases motivation.
Hypothesis four – CULTURE CHANGE That performance pay contributes to the objective of instilling a positive message about performance expectations and the achievement of company objectives which is recognised by the employees as a culture change	Hypothesis rejected. Negative perception by employees although some indications of accepted change through behavioural alterations brought about through performance management scheme
Hypothesis five – RETENTION/LOYALTY That performance pay contributes to the objective of offering a competitive salary and benefits package in comparison to rival companies in order to reduce staff turnover and attract a higher calibre of staff	Hypothesis not proven. Employees not satisfied with pay levels but positive about PERFORMANCE PAY increases at end of first year
Hypothesis six That paying performance pay on an individual basis works against the concept of team working	Hypothesis proven.
Hypothesis seven That experience of operating a performance pay scheme has a negative effect upon employees' perception of the scheme compared with their expectations at the time when the scheme is introduced	Hypothesis rejected. Employee ratings of scheme have improved after one year of operation.

- A cluster analysis showed that three distinct attitudinal groups existed. There was an extremely negative cluster who were all male, on average grades, long service and with a strong trade union representation. Their strong views influenced the overall statistical results. There was also a positive cluster who tended to be female, younger, with lower service, non-trade unions members and little represented in the middle grades The positive cluster do not hold their opinions so strongly in terms of their scoring. The middle group showed characteristics of the sample as a whole.

Although the general reaction to the scheme appears to be negative, the message from the Telecoms employees, may not be such a bleak one. It could be interpreted as follows:

'Our morale and motivation is not improved but we want to hold on to the scheme. We are not paid enough, but none of us would admit to being paid right, let alone too much, and we thought the last pay increase was pretty decent. The managers are not yet competent at running the performance management scheme but their general judgements were not far out. There are still plenty of things wrong with the scheme. You need to act to fine tune the details, you need a better process of consultation to decide the objectives, you need to give further training on the operation of the scheme both in setting objectives and measuring the results, you need a better organised communication system to ensure that it reflects the exact value you are trying to instil - Communication is open and honest. You need to talk to us more about it.'

5.12.1 Methodological Issues

Before closing this chapter, it is valuable to address some concerns over the methodology utilised in this research to ensure that correct conclusions can be drawn from data obtained.

Were the right questions asked?

In most performance pay survey of employees, the question is asked as to whether performance pay motivates employees to work harder. In every survey, including this one, the answer is a clear no. In many ways, this is a naïve question to ask. Very few employees would admit that they did not currently work hard, whether they did or not. It is akin to asking if they have a sense of humour. It could be argued, then, that the answers to this question should be discounted. A more interesting question would be to ask the employees' managers if the employees were motivated by performance pay. To a certain extent this can be analysed by looking at the responses to employees in higher grades who, in general, will be supervisors and managers with staff working for them. A total of 13 employees from the top two grades responded for the second questionnaire. On the construct of 'Motivation', their mean scores are as set out in Figure 49

Figure 49 Responses by Employees in Grades 8 and 9 on 'After' Questionnaire

Question	Mean for Grades 8 and 9	Mean for All grades
12. Performance pay has given me a greater incentive to get my work priorities right	4.0	4.42
13. Performance pay has given me the incentive to work beyond the immediate requirements of my job	4.2	4.79
18. Performance pay has raised motivation in general	4.1	4.84
21 Performance pay increases the quality of employees' work	4.2	4.35
28 Performance pay has encouraged me to give a sustained performance at work	4.2	4.34
34 Performance pay has raised my motivation at work	4.4	4.66
35 Performance pay has helped employees' morale in general	4.0	5.20

There are three interesting points arising from the response from these two top graded employees. The first is that the mean scores are better than the total response for every question relating to this construct. This is despite the statistical evidence that there is no correlation between the grade level and the positive nature of the response. The main reason for this apparent contradiction is that many of the employees in the grade 7 are the schemes strongest opponents, as explained in section 5.11. However, those in a supervisory or management position are more positive.

The second point is that the means for the questions that refer to the general standings on motivation and morale, (Q18 and Q35) are very much better for the higher grade employees at 4.1 and 4.0 respectively. It could be said, therefore, that there is a dichotomy of views on the troubled issue of the effect of performance pay on motivation and morale. One might consider that those at the centre of the organisation, the first line managers, would have a more objective view on this question than top management, who would have the proverbial axes to grind, and employees, who would respond on what they thought, but not necessarily on how they actually acted. Having said this, the views of the employees in senior grades are only neutral at best. But they do not regard performance pay as de-motivational.

A final point is that the standard deviation for the higher grades is greater than that of the whole respondent group. For one employee on grade 9, the responses are all lower than 2.0. For one on grade 8, there are three 7s and a six. So the views are very varied, even at this level.

Another question mark could be addressed concerning the question on cultural change (Q21/26). Would employees recognise a 'cultural change'? Do they know what it means? Would a year be sufficient for them to judge whether a cultural change would take place?

Were employees were asked in the right way?

This question has, to a certain extent, been examined in the chapter on methodology but a further point can be made here. There are considerable advantages in triangulation and the lack of carrying out extensive focus group work could represent a weakness. In such groups, it is possible to anticipate some of the questionnaire findings and to question the basis on which employees have the views they possess. Those that took place were somewhat inconclusive, partly because insufficient time was allocated and there was some questioning over the reason for their inclusion in the group. There was also a degree of suspicion over confidentiality. Viewpoints expressed were therefore muted and little evidence could be utilised from this source.

All organisations are the product of their history and the recent turbulence of Telecoms may have had a severe influence to the extent that employees may have wanted to make their voice heard in ways that currently may not have been available. This can only be surmised. On the other hand, focus groups have their critics and group views expressed in informal discussions need very careful analysis. They can be an excellent method of obtaining generalised viewpoints and specific criticisms and quotations but they do not naturally lay themselves open to statistical analysis.

Were the right employees asked.

In this study, responses came from a good cross-chapter of grades, although it could be argued that there was insufficient data and comment from senior managers and heads of department, such as obtained by Harris (2001). This may have thrown more light on the counterpoint between the espoused objectives and strategy set out by senior HR managers and the practicalities of running the scheme from an operational management viewpoint. This is not regarded, however, as a serious omission. A number of respondents to the questionnaire were in grades immediately below head of department and had day-to-day control and involvement in major performance issues, such as objective setting and input into the performance assessment process. Moreover, the overall strategy in relation to the scheme which was described in chapter 4.2.3, was written and/or supported by senior management and was well publicised in the organisation.

Conclusion

The findings in this chapter were extensive. Much of the evidence throws a negative light on the hypotheses, while the cluster analysis has thrown up considerable data on the nature of the support or opposition to the scheme. These, and other elements of the findings will be summarised and interpreted in Chapter 6.

CHAPTER 6. INTERPRETATION, DISCUSSION AND LESSONS FROM THE RESEARCH

6.1 Introduction

Hamlet: Do you see yonder cloud that's almost in the shape of a camel?
Polonius: By the mass, and 'tis like a camel, indeed.
Hamlet: Methinks it is like a weasel.
Polonius: It is backed like a weasel.
Hamlet: Or like a whale?
Polonius: Very like a whale.

(William Shakespeare, Hamlet, Act 3, Scene 2)

The literature review has made it clear that there are many conflicting viewpoints to performance pay. It is seen by academics and practitioners in different ways, depending on their interest and philosophy and the role they play in such schemes. The aims of this research have been to throw additional light onto a subject where there are many shades of opinion, some darker than others. This final chapter will deal with the following subject areas:

- 6.2 An **examination of the findings** from the three case studies as they apply to the research questions and the hypotheses.
- 6.3 An assessment of the **significance of these findings** and whether, and by how much, they add to existing knowledge. In other words, whether they have they taking our total knowledge any further.
- 6.4 A collection of important **implications** for management thinking on reward strategy in general and specific implications for organisations who are planning to operate, or who are already operating performance pay schemes.
- 6.5 Some suggested ways in which the **research can be taken forward** into key areas.

6.2 Examination of the Findings

The research questions (see page 9) in this thesis cover the reasons why organisations introduce performance pay and the outcomes they expect. They go on to investigate some of these outcomes in practice, specifically those relating to fairness, morale/commitment, motivation, culture, employee retention and the effect on team working. Finally the question is asked as to whether specific employee characteristics make employees more positive or negative towards the outcomes of performance pay.

6.2.1 Examining organisational objectives for introducing performance pay

Research question 1 dealt with an examination of the objectives for introducing performance pay in three organisations. A summary of these findings was set out in Table 9 on page 98 and Table 10 on page 102.

It can be seen that elements of the objectives reside in each of the three organisations but they vary in their importance. As far as the *operational objectives* were concerned, control was a key element in the David Webster scheme but was of less importance for the other organisations. An important factor to remember here was that most of the workforce carried out their activities away from supervision so an alternative method of control was significant.

Using performance pay as a communication medium was important for all four organisations, but especially so for Telecoms and David Webster, where there was a rapidly changing external environment. Performance pay was less important for recruiting and retaining employees overall although it did play a crucial part in the reward strategy for David Webster.

Using performance pay to assist cultural change was the most consistently important factor in the *cultural elements*. All three organisations used schemes either as part of a raft of changes or to drive home the one important contextual change element. The cultural change to sharing risks was important at Merck, Sharp and Dohme, while David Webster aimed to change the mind-set from a local authority viewpoint to that of a entrepreneurial organisation in the private sector.

To improve a sense of trust and openness had a medium importance at all three organisations while the emphasis on encouraging drive and motivation was a long-term objective for Merck, Sharp and Dohme. This was a more immediate issue for the David Webster group, who faced on-going immediate productivity challenges if they were to continue to win contracts. Telecoms, too, clearly wanted to improve the sense of drive in a highly competitive environment while doing so in a way that rewarded employees more fairly than previously was crucial. This did not appear too great a factor at Merck, Sharp and Dohme but was important at David Webster.

The significance of these findings will be examined in chapter 6.3.

6.2.2 Outcomes of Performance Pay

The outcomes were tested mainly through a quantitative survey of one organisation (Telecoms). A number of hypotheses were tested and the summary shown in Table 39 on page 154 (Hypotheses 8) and Table 48 on page 167. (Hypotheses 2-7)

It can be seen on the basis of these findings that performance pay appeared, according to the employees, to fail most of the objectives set. It did not motivate, it did not improve morale and commitment and it failed to support culture change. It gave no support to team working. It was uncertain whether it was regarded as fair or acted to improve retention and loyalty.

The significance of these findings will be examined next. The only positive feature was that it was seen in an improved light after a year of operation.

In terms of employee characteristics, there was greater support from females than males and employees in higher grades while opposition came from trade union members.

6.3 Significance of the Findings

Originality is a prime objective of any PhD study. Its success can be measured by the degree to which the findings are significant – that they add important components onto the existing knowledge in the areas chosen for research.

The study is significant in itself because of the lack of empirical research in this area as pointed out by Dowling and Richardson (1997). The summary of British research detailed at the start of the literature survey shows the paucity that exists and any addition to this list can be regarded as important in itself.

The originality in this thesis will be considered in three parts. Firstly, in the assessment of management objectives for performance pay; secondly, in the findings on the outcomes from performance pay and finally, in the originality of the findings from the analysis of the effect of employee characteristics on the employee perceptions of performance pay.

6.3.1 Management Objectives for Performance pay

The use of four case studies to examine the model was a significant addition to the list of studies. Taking four different organisations, working in different contexts and considering their objectives has provided significant information on the reasons why the companies embarked on performance pay schemes. The analysis provided further case study evidence and supported the viewpoint that objectives were contingent and could not be generalised. Although performance pay has been put forward as a system that can achieve a number of different objectives (motivate employees, increase commitment, retain employees, etc) not all organisation appear to sign onto all of those objectives when they begin schemes. They choose those objectives that fit their specific context.

6.3.2 Outcomes of Performance pay

The findings on the outcomes, as seen by the employees, were significant as a whole in that they provided a comprehensive set of data on employee perceptions on a scheme both before a scheme began and when it had been running a year. This was significant because only one other piece of UK published research was on a **longitudinal** basis (Marsden and Richardson 1991 and Marsden and French 1997). and their research had a gap of five years, rather than one. For Marsden and French, continuing experience of the scheme led to lower ratings. A similar result was found in an American study of school administrators (Heneman 1984) where the administrators were actually involved in the design and implementation of the scheme. In the Telecoms survey, the fact that the expectations were so low was, in itself, significant, as most organisations do not expect such a degree of cynicism at the opening stage of a major project. The fact that the employees, as a whole, became more positive subsequently was also of interest.

A number of the results of the hypotheses testing the outcomes were unsurprising. Most previous surveys have found employees unconvinced that performance pay schemes are 'fair' or add to employee retention (Geary 1992, Proctor 1993) and that performance pay schemes do not increase motivation, morale or commitment. (Kessler 1995, Kessler and Purcell 1994). The results differed from the more positive results from Dowling and Richardson (1997) but the results could well have been influenced by the fact that this 1997 research covered only managers. Even so, additional data in this area add, as has already been mentioned, to a limited set of published findings.

Greater significance can be attached to the findings on team working and the principle of performance pay. As shown in the literature survey, employee views on the link between performance pay and team working are extremely scarce so the findings here add considerably to our knowledge. Dowling and Richardson (1997) comment, for example:

'We did not specifically explore team work in the closed questions so we did not know how important or widespread a worry this is. But we would have thought that team working was relatively important in the Health service and that anything that threatens to undermine the effectiveness is serious....it is an issue that merits careful treatment by policy makers.' (p363)

What is significant from the Telecoms study is the fact that employees themselves are quite uncertain as to the overall effect. They like to be paid as individuals but they regret that performance pay hinders team working. They do not appear to give clear advice as to which type of system should be operating.

Additional significant findings concern the attitude of employees as to whether they agree to the principal of performance pay and whether they want it to be abandoned.

In both cases, the viewpoint is in favour of performance pay, if not by much. Despite all the difficulties relating to the operation of the scheme, the support is still there rather than reverting to any other system, especially one that operated previously. Although this replicates data from the Inland Revenue survey (Marsden and French 1997), those findings were hidden in the statistics and little reported.

A further area that could be regarded as significant is the large number of employee comments that emerge from the research. These help in the triangulatory process and give support to the robustness of the data. They clarify a number of reasons why certain viewpoints are held.

6.3.3 Employee Characteristics

This research replicated a number of research projects that have attempted to identify specific characteristics of employees that may make them approach performance pay in a more positive or negative way. There were a number of significant findings, especially those relating to union membership and gender.

Trade Union Membership

There was clear evidence associating membership of a trade union with negative views on the scheme, as shown in table 34. This disagreed with the findings of Thompson (1993) and Heery (1998) who found no significant association. We have seen that Kessler and Purcell (1992) found some support for the proposition that organisations used performance pay as an additional weapon to undermine union power. In addition, Heery (1997a) has put forward a number of reasons why trade unions should be wary of performance pay schemes, how they can, as it puts it, 'disorganise' unions:

'First, they might succeed in generating a new level of organisational commitment, such that employees come to identify more closely with management than they do with trade unions. Second, to the extent that new techniques successfully address the needs and aspirations of employees, they will diminish grievances at work and hence the raw material of discontent which unions need if they are to thrive. Third, techniques may fragment employee interests, so a perception of shared interests and the need for solidarity through the vehicle of a trade union fades.' (p430)

If performance schemes work well, then, unions may lose the loyalty of their members. In an associated article (Heery 1997b), he sees unions losing even further ground under the pressures of performance pay. Many unions, he finds, have been 'experiencing difficulty in maintaining their role as bargaining agents where schemes have been introduced. De-recognition may only have been partial...... but it has been a common union experience and the critical role of unions as joint authors of rules governing their members' remuneration has been substantially weakened' (p211).

On the other hand, he points out that if schemes have serious failings, then it provides fresh opportunities for unions to organise and represent employees in their grievances, especially under a more exacting managerial regime. Heery's research finds that the official viewpoint of the unions was that they believed their members typically opposed performance pay and that management-union relationships deteriorate when schemes are introduced. However, in the response from employees actually working under the local government schemes, he found that the views of union members did not differ significantly towards performance pay compared with non-union employees. A final point of interest here was that union members with a strong commitment to trade unionism, remained committed to the importance of trade unions in mitigating the deleterious effects of performance pay in practice.

Gunnigle et al (1998) see performance pay as an explicit challenge to collectivism in industrial relations and that they 'corrode the essence of collectivism and solidarity....dissolving the collectivism into a number of discrete, isolated and sometimes powerless individuals' (p575)

Trade union members may be more likely to be suspicious of management's motives under performance pay. Marsden and French (1998) found that Inland Revenue employees in the survey (who were all union members) believed that the scheme operated to reward managers 'favourites' and rejected the concept that 'good work was recognised and rewarded'. They also believed that a clear quota system of payments were in place, despite the explicit rejection of this by management.

The importance of the finding in the Telecoms research is that it would give weight to the belief that a collectivist viewpoint would be likely to oppose the individualistic elements of performance pay.

As with the Thompson and Heery studies, in Telecoms, the objectives set out for employees were all individual ones and the assessment of the 'contribution' was carried out on an individual basis. The fact that different (and to a certain extent, more expected) results were obtained indicates that more research is needed here. The results may be different because of a number of factors, such as involvement with scheme design, proportion of trade union members and other contextual areas.

Gender

The findings on gender have added some light to the few earlier studies on gender differences detailed in the literature survey. Women proved more positive to performance pay than men in the Telecoms study, especially after the scheme was working for a year and females featured strongly in the cluster of most positive employees.

It has been argued (Rubery 1995) that performance pay can bring a number of benefits to women. It can lead to greater recognition of varieties of skills and performance in women's job areas, providing the opportunity to pay outstanding female employees for their actual work and not the average work demanded in a particular job category. Moreover, the link that often exists between performance pay and functional flexibility can help to break down barriers between recognised occupations and blur the divisions between what have been regarded as 'women's work' and 'men's work'. In effect, performance pay could help to undermine the traditional job evaluation based graded structure which has groups of male-dominated and female-dominated job clusters, replacing this system with a more integrated, performance-oriented salary/wage system. This, in turn, can help to reduce the significance of occupational segregation in the generation of low pay for women which collective bargaining has failed to eliminate.

A further opportunity provided by performance pay is to widen the number of criteria for rewarding employees. While job-related pay schemes may differentiate jobs according to a limited number of criteria (number of staff supervised, number of contacts, responsibility for money, etc.), performance pay can include much broader measures, such as ability to innovate, response to customer needs and skills in team-working. Women are therefore more likely to benefit from greater recognition of their expertise and contribution to organisational effectiveness (Crompton 1994).

The Telecoms performance pay system has provided the potential for women to take advantage of opportunities to improve their position. However, this potential for improving the position of women's rewards can be greatly reduced if the assessment decisions are tainted by discrimination. Assessment can be made differently for men and women against the same criteria or it may reflect male-type goals, behaviours and tasks. A greater emphasis can be placed on the realisation of individual objectives and achieving significant objectives, especially if these are stretching and crucial to the organisation, which can be seen as male-type goals, rather than supportive team work activity or helping new entrants or mentoring weaker performers, which can be seen as female-type goals. In the long-term, both types of activities have equal contribution to organisational effectiveness but the former may receive higher rewards in the short-term approach and time-scales of performance pay schemes to the detriment of women's pay.

These gender difficulties in assessment processes were highlighted in the IMS report (Bevan and Thompson 1992). Firstly, in one of the four case studies, women were more dissatisfied with the criteria against which they were being judged than men, although this organisation was the only one of the four which had pronounced gender-stereotyped values. Secondly, the whole assessment process appeared to give some reinforcement to gender stereotype. For example, assertiveness was considered appropriate behaviour for men but not for women for whom tact was often seen as appropriate behaviour. Finally, male managers valued different attributes among their subordinates than female managers. Males rated the attributes of intelligence, logic, energy and creativity more highly than female managers whereas the attributes of perceptiveness and organisational abilities were rated higher by female managers than male managers.

Rubery (1995) questions the fairness in the measurement process inherent in performance pay scheme:

'The whole debate on comparable worth has stressed the relatively intangible and unmeasurable nature of many skills required in female work. Skills that are assumed to be part of the female 'nature', such as caring, organisational, co-ordinating or communication skills. Thus a recommendation to look for measurable criteria may itself bring in another form of sex bias and contribute to the continuing invisibility of female skills.' (p647-8)

She goes on to point out three further difficulties that may be faced by women under performance pay schemes. Firstly, that such schemes may set out to reward the high-flier at the expense of the steady, reliable mainstream employee, the category that women are more likely to fall into, given that many are likely to have domestic commitments. This argument, however, may have a certain dated sense about it, given the continuing and rapid rise in single and childless high-flying women in the 21st Century (Elliott and Dobson 2003). Amongst the 22% of women graduates who have no family, domestic responsibilities are likely to be no different to men and allow the opportunity to benefit from the rewards offered to those dedicated to career and reward enhancement under performance pay schemes.

Her second difficulty centres on the greater emphasis on individualism that is apparent in most performance pay schemes. Women, she argues, tend to be less individualistic and competitive in their work relations and more concerned to facilitate the work of others and to work more co-operatively. Her evidence here, again, may be regarded as somewhat dated (Marshall 1984) and not reflect the huge strides taken in the last twenty years in female competitive activities in sport, business and elsewhere.

Her final point is that performance pay schemes reduce the transparency of the labour market and reduce the scope of collective agreements and legislative rights while increasing managerial prerogative. Her strong belief is that the narrowing of the pay gap has come about through the transformation and extension of regulatory systems and not through the exposure of women to pay determination at the discretion of management. This is a strong argument, much supported by the EOC and other bodies but it does miss out on one vital area of the pay and career equation. However, performance pay schemes can (and should) provide the opportunity for good performers to shine and be noticed in a much more transparent way than in traditional job-evaluated pay scales. Such pay scales either have no method in place to effectively measure performance or such measures are largely ignored because they have no real outcome. Where women take advantage of the transparency of such schemes and are fairly rewarded, then it becomes much more likely that the pay gap can be narrowed. Furthermore, where high performance leads to career advancement and associated pay increases, a further step in pay equalisation is achieved.

A further argument towards reaching true pay equality is that career advancement based on robust performance measures is recognised by all concerned as a far preferable system to 'tokenist' promotions based on vague anti-discrimination agenda. Role models, promoted through the support of a performance pay system, are also more likely to support and extend robust systems within their own fiefdoms.

The degree of support given by women for the performance pay scheme in Telecoms comes with important messages for the organisation. The Telecoms data would indicate that the difficulties set out for women under the existing schemes may not have been so prevalent in this study but they still demonstrate that there are implications for management. They need to ensure that the overall support given to the performance pay principle and processes by female employees is reinforced by appropriate organisational behaviour, such as transparency and co-operation.

Other characteristics

This study found that characteristics of age, length of service and seniority had a degree of influence on employee perceptions of performance pay but not a statistically significant effect. These findings are significant in themselves because existing research findings in this area are quite slim.

Finally, the fact that a comprehensive analysis has been carried out provides an additional element of significance in the findings. The published studies do not provide such comprehensive analysis, mostly concentrating on certain isolated characteristics. Thompson (1993), for example, analysed trade union membership only.

Cluster analysis

The most significant area of findings, however, arises from the cluster analysis that has not been carried out before in published research in this subject area. What was discovered was two sets of employees, each with a 'bundle' of characteristics who were strongly opposed to or in support of the scheme after it had been running for a year. This was significant was that the degree of support and opposition can be pinpointed closer at the time that the scheme is being formulated by identifying employees with those specific characteristics.

6.4 Implications for Management

The findings provide a number of lessons for management, especially for those organisations in the position of Telecoms who plan to introduce performance pay or who run an existing scheme. This chapter begins with a discussion on the outcomes of the scheme, moves on to a discussion on whether the results can be generalised and then concludes by suggesting appropriate responses for the organisations concerned.

6.4.1 Lessons arising from the Outcomes

The overall results cannot, on the surface, give a great deal of satisfaction to the organisation or to those that put forward any form of performance pay as a means of helping the organisation reach its strategic goals. The employees in the Telecoms study have responded that the scheme does not motivate, has not brought about a culture change and are not satisfied with their pay. It is not clear-cut, then - the scheme must be a failure? Does it not support the pessimistic view from Smith (1993) that:

'.......Reward Management as a whole amounts to little more than a reliance on well worn, simplistic and unsuccessful casually-based links between pay and performance contained in a shell of rhetoric and intention' (p56)

Well, not quite. Firstly, there will have been widespread relief that the scheme was not as bad as some senior managers may have feared. Most of the ratings improved over the first year, with some crucial exceptions (especially regarding feedback from managers). This improvement could have been caused by a number of factors. Firstly, employees began to understand the scheme better. Secondly, that the degree of trust began to grow over the year and thirdly, employees learned to work with their management team to ensure the scheme worked well.

There also could be a further reason. The organisation put a not inconsiderable sum of money into the pay increase pot at the time of the first assessments so that a series of good assessments, that lead to reasonable pay increases, could be adequately financed. This allowed local managers' decisions to be supported, on the whole. The difficulties faced by 'rationing' assessments or management 'forcing' ratings did not apply in this first year. It was the managers who put forward their recommendations for salary increases and one can only assume that they did so using reputable measures.

Having said this, the overall results still do not appear to respond well to analysis. What is crucial is that they do not, as a whole, want to go back to the old payment scheme. What is more, their experience of the scheme has improved their ratings and there is a strong support for the principle of performance pay. Finally, they give a modicum of support for the fairness of the performance management scheme that underpins performance pay both in its measures of Contribution and Objectives and the confidence in their managers in being able to accurately assess them.

What appears from these findings to lower the ratings are two factors. Firstly, a perception that procedural justice is lacking - there is not enough consultation on objectives, they do not always balance across departments, assessments are wrongly made, the scheme is not explained coherently, discussions on results are skimped and outcomes are communicated badly and late. Secondly, a conspicuous minority cluster made up principally of male union members with long service in middle grades who are against the scheme both in principle and practice.

6.4.2 Can the Conclusions of this study be generalised

Case study research, as explained in Chapter 3 on methodology, is carried out not just to demonstrate that certain ideas, actions and events are taking place in an organisation, although this 'story-telling' is of interest in itself. It is to add incremental knowledge to a collection already in existence and to demonstrate an example of concepts and developments that may be generalised across a wider field. The case studies are not 'sampling units' so they cannot be generalised from a statistical viewpoint (Yin 1994). The process is one of:

'analytic generalisation' in which a previously developed theory is used as a tenplate with which to compare the empirical results of the case study. If two or more cases are shown to support the same theory, replication can be claimed.' (p31)

The chapter on the significance of the findings indicates a number of areas where this research has replicated previous findings. It would be safe to support a degree of generalisation here. For example, it appears certain that employees (with the exception of managers) do not see performance pay schemes as motivators. Similarly, a generalisation could be that employees, on balance, support the principle of performance pay, if not very enthusiastically. In other areas, where there is conflict in findings with existing studies or where the findings are unique, it is less safe to make generalisations.

6.4.3 Appropriate Responses by Management

Objectives for performance pay schemes

'There is no such thing as a good pay system: there is only a series of bad ones. The trick is to choose the least bad one.'

(Richard Johnston, Human Resource Director of Flowpak Engineering, quoted in Bratton 1992)

Kessler and Purcell (1994) set out a number of issues and dilemmas for management to consider before embarking on a Performance pay scheme. The first is the cultural issue. Although organisations realise that that a greater emphasis is needed on performance, they have a dilemma in respect of whether or not to use performance pay to try to change the culture and in what form. They suggest that it can be used to emphasise the 'cultural break' from old forms of management to new or to recognise 'cultural sensitivity' and introduce a comparatively 'gentle' form of performance pay. Both have problems. If the 'cultural break' version is used, then this is a high-risk strategy because if it fails (or is perceived to have major faults by the employees) then the whole cultural change process may be put at risk. If, on the other hand, the 'cultural sensitivity' approach is used, then the scheme may become a weak and ineffective one and may show a distinct lack of 'fit' with other initiatives. Whatever approach is used, it has to be remembered from the Telecoms research that employees do not regard the use of performance pay as a good vehicle for cultural change.

A second dilemma, linked to the first, is whether performance pay should be seen as a high profile leader of change (to 'blast the past' as they call it – p8). Alternatively, whether it should be used last of all in a change programme as the last piece of the jigsaw when other parts are in place. For example, getting the job design programmes in place, the new performance management system right and full communications under way before introducing performance pay maybe a year or two later. This is a useful suggestion in one way in that it reduces the long list of management objectives set out in the model which has received patchy support in this study.

The third issue is the degree of involvement, especially where unions were concerned. If the aim is to re-assert management control, then unions would generally have no part. But to exclude them when one of the major aims is to improve communication all round, would appear to be contradictory. The Telecoms research indicates that a body of negative trade union members can have a serious effect on the overall perceptions of the scheme. The harm they can do will depend on their organisational influence but the risks are great. The findings would suggest that consultation and involvement is likely to obtain better long term results.

Armstrong (1999), always a realist, advocates that not too much is expected from performance pay and that it is not used as the sole motivator because there are other ways of improving performance. It should be introduced only if it fits the existing culture or management is fully confident that it will successfully help to change the culture. He is also quite clear that inclusion is vital, that as many people as possible are involved in developing the scheme.

Brown and Armstrong (1999) reflect that the main problems around performance pay are often the result of inconsistencies or difficulties in some of the other business areas which manifest themselves in pay, such as an unclear business strategy or an ineffective performance management system. Therefore the first phase of their prescriptive approach called Paying for Contribution, (Figure 5), is to build a solid base.

Figure 5 Paying for Contribution – Three Stage Approach

Phase One

- Diagnose and agree the outline approach
- Understand the organisational and business context and rationale
- Analyse the current reward and HR systems
- Examine the existing approach to performance pay
- Compare the various options for change and improvement
- Secure management to the recommended future

↓

Phase 2

- Detail the recommended approach
- Test it in the organisation, in order to ensure its relevance and applicability.
- Assess its likely impact on costs and attitudes
- Ensure senior management agree the outcomes, system design and implications.

↓

Phase 3

Test the operating procedures
Make preparations to implement and operate the scheme including sufficient training and communication.

Source: Brown and Armstrong (1999) p 368

They stress in this outline that it is critically important to involve managers and staff in all phases of the project as there has been a strong correlation between involvement by staff and a more successful conclusion in terms of employee perspectives.

Murlis's (1990) prescriptions are particularly strategic. Firstly, a successful performance pay scheme must match the culture and value systems of the organisation. Secondly, the design must take place in an interactive way, finding out the key performance issues by contact with the stakeholders and designing the scheme around them. Thirdly, the rewards need to be closely linked to the business, support overall strategy and be flexible enough to respond to changes in strategic direction. Fourthly, it must not be regarded as a one-off operation. Provision will be needed for monitoring, evaluating and reviewing to ensure that it develops and responds to changing needs. Finally, performance targets must not be set mechanistically but should be a mix of hard and soft issues.

In a subsequent publication (Murlis 1993) she gives greater emphasis on the avoidance of using performance pay to compensate for recruitment problems, market pressures, inability to promote, widening employees' responsibilities through de-layering and other issues that risk confusing the messages implicit in the system. The rewards, she considers, should be capable of being significant for the market sector, be easy to understand and be publicly defensible.

Many of these prescriptions were followed by Telecoms. They linked the scheme with the business direction and integrated the performance management system effectively with the reward areas. It could be said that the scheme matched the culture that they wanted to develop in a customer-oriented fast-moving Telecoms world. The scheme was supported by top management as a key strategic initiative, the measures were a good mixture of hard and soft targets and they entered into a detailed training and communication exercise. In these areas, they followed quite closely both the Brown and Armstrong and the Murlis models. Despite this, the ratings were still unsatisfactory.

On the other hand, there was not a great deal of evidence of consultation with staff and this may well have been the major cause of the low ratings for the first questionnaire. The staff, having had a series of substantial changes involving redundancies and other unpleasant experiences, would simply see this initiative as yet another process of cutting pay and increasing the work-load. We have seen that the fact that the performance pay rewards were recognised as good by the staff helped to raise the ratings at the end of the first year.

This research may indicate that objectives have to be more realistic. We have seen from the outcomes of this and other surveys that it is unlikely that performance pay will, in itself, increase employees' motivation or their morale. The removal of job security in service and administrative areas and organisations is a comparatively recent origin. The huge redundancies of the early 1980s scarcely touched the non-manufacturing sector but it came with a vengeance as a result of the recession in the 1990s, privatisation ,C.C.T., the de-regulation of (and innovation in) financial services and , probably of equal importance , the arrival of HRM policies. By deliberately reducing the core of permanent, full-time, career-planned employees , by down-sizing at every opportunity to match rivals, (and because people are the most expensive expense and easiest to dispose of in the UK) and by decimating the yearly intake of graduates and trainees, the message of permanent insecurity has successfully passed into the mentality of all employees. Insecurity breeds low morale and organisations may have to accept that if they adopt HRM policies, then they must accept the baggage that accompanies it. Performance pay may, on occasions, get the blame but the picture is a much wider one. After all, compensation is at the core of any employment exchange (Milkovich, and Newman, 1996).

Can performance pay increase the level of commitment of employees? Not according to the indications of this survey but it is worth questioning the extent to which a high level of commitment is appropriate or necessary in today's employment situation. The degree of discontinuity of employment, the growing level of outsourcing, the rise in self-employment all support the prognosis that long-term commitment may only have historical interest. Some organisations in the service sector thrive on high turnover, especially those in catering and hospitality. McDonalds is an obvious example. There is no conclusive evidence that it is an unalloyed benefit or that it is positively related to better performance (Morris et al 1993). High levels of commitment may engender a dislike of change and a lack of creativity among employees. ' precisely because they are committed to existing arrangements or joined the organisation with a set of assumptions concerning the nature of employment exchange, such as a lower level of reward in return for high job security.' (p38)

Nor will employees recognise the scheme as one that can assist in achieving cultural change. The organisation may see the incremental effects and understand its part in the whole raft of changes but employees, especially those who oppose the workings of the scheme, may only respond negatively when asked about its specific effects. The research evidence detailed earlier gave strong support to the difficulties of attempting such a change. Harris and Ogbonna (1998) found that top managers frequently view organisational culture as a unitary concept and commonly contend that resistance to change is irrational. From an employee's viewpoint, however, they found the resistance to be perfectly rational because it made sense of their social world by balancing the past and present demands of management. In other words, they may be suffering from 'cultural change fatigue syndrome' and regard each new phase as a further version of a previously failed strategy. It is their duty to oppose such attempts for the good of their fellow employees and the organisation as a whole.

Kessler (1994) points out that using performance pay to help force a change in organisational culture is a risky strategy. He describes the outcomes for a newspaper company where this approach led to an extended period of tension and conflict in employment relations but where, two years on, performance pay had been accepted as 'the way things were done'. The approach created pressure points forcing a concentration not only of minds but also activities and breaking through a longstanding procedural and attitudinal stalemate.

Attempting to change the culture can have the 'unintentional consequences' mentioned earlier. This apples in the technical sense, such as employees concentrating only on completing their specific objectives that can affect their pay increase but also in the larger cultural picture in that it encourages a decline in team-working and a short-termism in attitude. Just as important, it can create a strong dichotomy of views reflected in the cluster analysis, splitting groups and departments and leading to a general increase in difficulty in co-operative behaviour.

In terms of fairness, employees' views are mostly determined by the way the performance management scheme is set up and is operated. The research has shown that procedural justice is a key factor in determining acceptance or opposition to the scheme.

Performance Management Issues

Much of the academic research carried out on performance management has produced has produced damning indictments of the process in general. Grint (1993) commented that, rarely in the history of management can a system have promised so much and delivered so little. while Bowles and Coates (1993) believe that performance appraisal requires subtle psychological and social skills which may not be acquired by many managers. Not all is painted as black as this, however. In the IPD research report on performance management, (Armstrong and Baron 1998) it was found that employees gave high ratings for schemes in organisations where there was a well-developed system and where considerable time, effort and money was spent on involving, training and communicating with. They supported the importance of the concept and the opportunity for feedback and that 'quality time' spent on the reviews was very well spent.

The IPD report indicates that the criticisms of the Telecoms scheme are not untypical (Armstrong and Baron 1998). An organisation faced with such criticisms needs to take remedial action. The interim feedback is the most obvious where the score after the first year was very negative at 4.69 and where there were a number of complaints that employees were given their ratings without any discussion or explanation. Other specific employee criticisms detailed in the findings should be addressed. Objectives should be agreed and not imposed. Objectives do have to be meaningful to the business and the objectives for each individual, taken as a whole, should give a well-rounded view of performance. An assessment needs to be made to ensure that objectives do not conflict between individuals and across departments.

Where an organisation uses the measurement of competencies (or, in Telecoms terms, 'contribution' measures), the criticisms of vagueness relating to the competency descriptions need to be examined and revised. In the case of Telecoms, the number of criticisms made that level 5 was too high to be achieved should also be taken on board. Briefing processes needs to be better planned with briefings carried out in groups of 10 to 15, not 50 and the organisation should be prepared for likely questions.

These are specific recommendations but they fit in with research carried out into successful performance management. Greenberg (1987) found that there were five crucial procedural factors that contributed to the perceived fairness of the evaluation process:

- Employee input is solicited before the evaluation and is utilised in the process
- There is two-way communication during the evaluation interview
- Employees have the ability to challenge or rebut the evaluation
- The rater is familiar with the employee's work
- Standards are applied consistently.

These may appear rather obvious but it is astonishing how often they are forgotten in the rush to both set a scheme in motion and then to wind up the year's appraisals in a limited time span.

Feedback does not have to be restricted to the formal, fixed occasions. In fact Farr (1993) contends that 'informal or day-to-day feedback is more important than annual or semi-annual performance appraisal sessions in terms of its impact on work performance and attitudes' (p177).

There are two important areas that follow on from the issue of effective objective setting and good feedback. Firstly, it is the view of Marsden and French (1998) from their studies in the public sector that it is the performance management process, and specifically the goal-setting and feedback, that has led to a substantial minority of employees working harder under performance pay schemes they have studied, rather than the linking of pay to performance. In the Inland Revenue study, for example, a clear majority considered they had sufficient opportunity to discuss their performance with their manager, that they could change their objectives when their workload changed and that the goal posts had not be moved during the year. In the Employment

Service study, the scheme had raised awareness of the Agency's targets and that their own targets had become clearer while in the NHS Trust study, a majority of employees believed that the scheme had led to work targets being set much more clearly.

The second issue is the nature of feedback. Although the traditional process is that of the manager individually giving feedback to their members of staff, the disadvantages of such schemes have been widely publicised in recent years. Williams (1998), for example, sums up these point well:

'Though line managers have a legitimate role in assessing performance, this is not to say that they are necessarily the 'best' people to make those judgements. First, the manager cannot observe all that the job-holder does or accomplishes – the manager, in other words, has only a partial view of performance. And this may become a greater problem in those organisations that have experienced downsizing, delayering and the like as the span of control may have become wider. This leads to the possibility that job-holders may have little contact with their managers.'(p160-1)

Williams goes on to point out that it is possible that most managers value results more highly than behaviours. This may be one explanation for discrepancies between self-ratings and supervisor ratings. Furthermore, in some forms of work organisation, such as matrix organisations and team working, it is not always clear who the manager is. So, though managers may be a necessary source of information for performance management activities, they are by no means a sufficient source. He recommends a serious consideration of the system known as 360 degree feedback to improve the employees' view of fairness and equity.

McHale (1990) found that there is a critical dimension in performance management, which is the level of contact. Where the barriers to contact were high, the negative attitudes formed as a result prevented the transmission of positive performance messages, resulting in indifference or negative messages. 60% of employees who receive regular feedback have a strong believe that their pay was linked to their performance while this dropped to 15% where contact was low. He concluded that, in a high-barrier company, using pay was an expensive and ineffective way of passing performance messages. The clear implications were that regular and effective two-way contact was essential to successfully implementing a performance pay scheme.

So what are the options? There can be the encouragement of a quite common system of *self-appraisal* that dovetails into the formal management-led system. Coming to the table with their own thought-through opinions of the appraisee's performance will, at the least, stimulate discussion on areas where there is disagreement. It should lead, hopefully, to a better understanding between the two parties.

The difficulty still remains that the person being managed may not, ultimately and sometime rightly, respect the judgement of the person managing. This is where multiple feedback or 360% appraisal comes in. Here, a series of opinions on the performance of the appraisee are sought from interested parties or stakeholders. These can include their subordinates, colleagues, internal and external customers. It is an initiative that is growing fairly rapidly, according to a Towers Perrin survey (1998), although it may be a complex, costly and time-consuming process. According to number of reports and case studies, (Megginson and Casserly:1996, Handy et al:1998, Jacobs and Floyd:1995) it facilitates understanding by the appraisee of their strengths and weaknesses and generates a greater sense of fairness. However, it still is rarely used as part of a performance pay scheme due to the uncertain response of stakeholders to making such judgements that will influence pay decisions (IRS 1998). One example of where it is in operation is at Cable and Wireless Communications (IDS 1998, p9), where employees can exercise the option of having multiple feedback.

Throughout these considerations, the issue of fairness is paramount. There is strong evidence that there is inherent tension between performance management and performance pay, including the problems of the stifling of communications when employees are aware that discussing problems with their managers can endanger their ratings. (Milkovich and Widgor (1991). In fact, the demands of a performance pay scheme strains the relationship between managers and their staff (Milkovich and Newman 1996).

Are the payments high enough?

In the Telecoms research, employees indicated that the outcome of the first year of operation showed that the payments were regarded, in general, as too small. Agreement to this statement changed from a mean of 3.70 to 3.18 indicating experience of the scheme strengthened employees' opinions. In terms of Expectancy theory, the valency was simply not high enough. However, small payments in administrative performance pay schemes are not unusual (Bangoura 1987, IDS 1998) and increasing the payments can lead to increased divisiveness. This opens up again one of the fundamental dilemmas between pay schemes that promote equality of payments for work of equal value and those that promote equity through pay in accordance with effort and performance. Too much emphasis on the former discourages the high performer; too much emphasis on the latter spreads greater dissatisfaction, jealousy and divisiveness. High pay-outs to company directors under performance pay schemes continue to be heavily criticised, as detailed in the literature review.

The balance here is one that can only be tested by experience and experimentation. If the organisation wishes to promote the cultural changes thoroughly, it will need to extend the performance pay variations but this should be approached cautiously on an incremental basis with a constant review of the process. The perceived effectiveness of the performance management scheme will have a large influence here and increased confidence in that process will allow the organisation to continue a step-by-step approach towards differential awards.

Special issues with group/team performance pay schemes

The research outcomes indicated some confusion in the minds of employees over the issue of team rewards. One way forward here is to gently tune the objectives towards a mix of team and individual. However, if there are special incentives to teams, then care must be taken in at least two areas. Firstly, to give the appropriate assessment and payment for the varying types of teams (Wright. 1994, Saunier and Hawke 1994). Secondly, there a problem of perceived 'Social Loafing' when employees withdraw their individual efforts in the hope that other group members will ensure the group meets its goals (Bettenhausen , K. 1991). Rewarding through Gainsharing (Welbourne and Mejia. 1995) could be considered. There are 2,000 such schemes now operating in the U.S. but only a handful in the UK, such as one operating in BP. There is certainly evidence that companies are thinking this through carefully as North. and Madden (1994) found that 26% of companies in the financial services sector were considering introducing some form of Team-based rewards and the IPD survey (Armstrong 1996) found similar interest. However, there is some evidence that teams fail to produce better than the aggregate of individual members, which throws some doubt onto the headlong rush by organisations into empowered work teams (West and Slater 1995).

Encouraging preferred behaviours

Reinforcing preferred employee behaviours has often been associated with performance pay, as indicated in the literature survey. The link is a close one where competencies are an integral part of the performance management process but they should be spelt out clearly if no framework exists. They can vary from those associated with a competitive private sector organisation, where risk-taking, customer focus, flexibility in work patterns and innovation are essential, to those behaviours in many public sector schemes, such as in the teaching profession, where the emphasis is on conformity, development, quality focus and an ethical stance.

The presence of such preferred behaviours is part of 'joined-up' management strategy. It may work if it has a sound, consistent framework, is convincingly portrayed and has the overall support of line management who 'walk the talk' All of these requirements are essential pre-requisites. With on part of the jigsaw missing, the picture is unconvincing from an employee's viewpoint.

Ensuring continued support by female participants.

We have seen that the Telecoms data has found women to feature highly in the most supportive group of employees. This is despite the traditional viewpoint that women do not thrive in the culture of competition, goal achievement and individualistic assessment. It is also despite the many overall criticisms voiced by respondents as to the weaknesses in the performance management process. The results indicate that women do not consider the processes to be discriminatory and that they have responded to the opportunities available to be judged individually on the quality of the work they do and their contribution to achieving the organisational objectives.

This aspect of the data has considerable implications for organisations running, or considering implementing a performance pay scheme. Because the growth of performance pay schemes are located amongst managerial and administrative employees, then women tend to make up at least 50% of participants, often more. Satisfying the aspirations of this large group is crucial and the aim should be to achieve this by a number of means. Firstly, it goes without saying that the performance management aspects of the scheme should be handled effectively. The scheme and its measures should be robust, the processes should be consistently applied and the system as a whole should be transparent. Secondly, monitoring should regularly take place to ensure that no apparent discrimination is taking place and that managerial prerogative is not being unfairly applied. In the circumstance where the bulk of operating managers are men and the majority of staff are then special safeguards should be in place to ensure that managers do not favour the minority male staff. As a matter of urgency, the male authority dominance needs to be addressed.

Thirdly, the scheme should be utilised to improve the communication processes throughout the organisation but especially to marry the differing requirements from work relationships between men and women. Performance pay schemes which have a built-in system of regular review between the parties can help all sides to focus on the key operational requirements established as objectives and develop the behavioural aspects set out as competencies.

Convincing the unconvinced

The group of employees who have been identified as strongly opposed to performance pay need to be addressed. Being able to identify the grouping that is most likely to be 'at risk' can be most helpful as resources can be set aside to approach this difficult group. It can be the key to gaining overall acceptance of the scheme. The importance of professionalism in planning and implementing performance pay schemes was found by Heery (1997a) as a key factor in ensuring that union members accepted performance pay in local government. This was especially true where performance pay was associated with policies to improve communications, enlarge jobs and invest in training and development rather than to reduce wage costs or force through efficiencies. As with all successful negotiations, it is trying to get the opposed side to raise proposals that are constructive and useful but do not have a long-term cost or undermine the main principles of the scheme, that usually brings groups round from outright opposition to at least acquiescence.

The Telecoms scheme was introduced after consultation with the union but at a time when it tended to be associated with a 'survival' plan. Although it was not called that, employees understood it as such. It was, therefore, not generally opposed by the union. An approach for an organisation in Telecoms situation may be to seek to have closer touch with the union on this sensitive area. Heery (1997b) sees the union role as to seek to regulate management decision-making and minimise the exposure of members to management arbitrary discretion, for managers to follow explicit rules in awarding payments and for appeals procedures to be in place and regularly exercised. A further role would be to limit the amount of money at risk – in other words to limit the contingent payments available, especially if they were at the expense of a guaranteed pay increase. They would also want to have access to all the facts relating to contingent pay 'pot', the methods of awarding pay and the monitoring of equity in the awards. Most of these approaches could be seen as a reasonable role for a union to play, supported by the human resource department as long as it did not lead to a bureaucratisation of the scheme, a slowing down of decision-making processes and awards being reduced to valueless gestures.

Heery's research demonstrated that the introduction of performance pay schemes do not lead necessarily to the marginalisation of unions or union members. However, an alternative approach would be for the company to use the scheme as a message to encourage into the organisation those with a risk-taking character who are in agreement with the pay-at-risk concepts and who believe strongly in the meritocracy vision. If it decides that the existing union opposition is too small, weak and thinly distributed, then it could take the view that such minorities could be safely ignored, having been given the opportunity to radically alter its viewpoint.

Is there any alternative to performance pay?

Employees in this research supported the principle of performance pay and did not want, on balance, to return to the old scheme of payment by job and service. These findings are supported by the few other surveys where this question is asked, even in the union-dominated Inland Revenue research. On that basis, it does not seem to be the case of whether performance pay should operate or not but what form it should take. There are, of course, a few limited exceptions. The literature review has shown that the contingency approach to HR strategy would indicate that in those sectors where the vocational element is strong, (vocational in its old-fashioned meaning of a 'calling') then performance should can be avoided. These areas include the charity sector and certain professional areas in the public service, such as the police, prison service, nurses, doctors and social workers.

Overall, though, there is little purpose in academics and unions railing against performance pay and demanding its abandonment because there is no going back to the cultural elements associated with job and service based pay. This brings the subject back to the introduction to this dissertation where the features of the modern economy were detailed. There is no long-term employment, little security, no fixed ways of working or unchanging operational rulebook. Not, at least, for those organisations that want to survive in the globalised economy.

Finally, is performance pay worthwhile? Not, according to Brown (quoted in McHale 1990) who believed that:

'All material rewards suffer from the law of diminishing returns. Trying to satisfy individuals with material rewards is like trying to fill a bottomless pit.' (p 13)

The issues in motivation between financial and non-financial rewards have been debated long and hard over the last 50 years or more. Achievement (McClelland 1975), recognition (Maslow 1954), responsibility (McGregor 1960), growth (Alderfer 1972) are all indisputable elements that can provide positive support to an individual's progress. But the latter part of the twentieth century has been a highly material period and attempting to reduce the importance of financial reward can be akin to attempting to drive back the tides. It is likely to be in the combination of both elements of financial and non-financial rewards that an organisation will find its greatest success in employee satisfaction.

An important aspect in deciding whether performance pay schemes are worthwhile is to try to assess how successful the outcomes have been in practice. Very few organisations in practice attempt to do this (IPD 1998). Less than 5% appear to carry out a financial analysis to estimate if the costs of the schemes have been outweighed by the benefits, nor do they survey employees to obtain their views. That is not to say that the measure of 'success' finds a ready consensus between employers and employees. Prendergast (1993) pointed out that even when the outcome of an incentive arrangement is that the employees pay greater attention to conforming to the requirements that are the base for the measurement system, criticisms can be made that employees are simply becoming 'yes men'. The conforming process produces inefficiencies and a risk-averse workforce. In other words, a re-stating of one of Kohn's (1993) criticisms of performance pay that it produces only temporary compliance. Management may find compliance, even of a temporary nature, provides a satisfactory context for implementing change and improving performance. Employees may regard this situation with less sanguinity (Kessler 1994).

6.5 Suggestions for Further Research

'In spite of the rapid growth in the use of performance pay schemes in the UK, there have been surprisingly few attempts to gauge their success and even fewer attempts to explain empirically any observed success or failure' (p 348)

We return to this opening quotation from Dowling and Richardson (1997) for this final section. These final comments concentrate on the author's views of key areas. Research is required into organisations that have introduced forms of team based pay, including gainsharing and the reaction of employees to these schemes. There has been no published case study research from an academic viewpoint at all into team-based pay or gainsharing in the UK. The tension between individual and team-based rewards is a particularly vital area and cases are required to see how organisations have attempted to resolve this tension.

Further studies are also needed to clarify the issue of the characteristics of key supporters and opponents of performance, assuming that the findings in this research are supported elsewhere. If there are identified stakeholders of either persuasion, then a strategy can be worked out to help transform those opponents and encourage he supporters.

An examination of the internal environment would also be valuable. To date, more research has been carried out in the public sector so a concentration on the private sector and the competitive environment would be useful, especially organisation in the high-tech industries or those where individual performance or group performance are crucial to organisational success. Lewis's (1997) PhD findings make good inroads into this area, especially in mapping the internal and external context of the organisations but further work is certainly required.

How line managers respond to performance pay and the additional pressures this puts on them is another area that calls for research. Schemes are unlikely to work without managers operating them effectively and this usually does not take place without adequate involvement, training and resources so research into these factors with some success measures would be valuable.

There is a large research gap in the use of 360 degree feedback as a crucial element in performance measurement leading to pay outcomes. As most schemes struggle to achieve satisfaction with the performance management process, such research into employees' satisfaction with 360 degree feedback would be valuable.

Case studies of performance pay schemes in practice, especially longitudinal ones, is another useful area of research. Investigations could be carried out on how organisations make changes year on year, the degree of flexibility in the schemes and the respond to stakeholders' advice and complaints. An attempt could be made to measure the way schemes become corrupt and decay. Specific attention in these areas would be applied to the underpinning performance management processes underpinning the performance pay schemes.

Finally, communication and training for performance pay schemes are so important that they warrant an investigation of their own. Criteria of success is another difficult area to consider but one that is essential in the long term. This brings us back to the underlying questions. Is performance pay introduced from the viewpoint of operational efficiency or for cultural reasons, or both and do the views of employees matter in any case. if management view the scheme as a success from both the operational and cultural viewpoints?

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APPENDIX 1

QUESTIONNAIRE 1 (BEFORE)

APPENDIX 1

ATTITUDES TO THE INTRODUCTION OF PERFORMANCE RELATED PAY
RESULTS

Please answer the following questions as fully as you are able and return the completed questionnaire direct to Putteridge Bury in the reply-paid envelope provided. (Performance Related Pay will be referred to as PRP)

SECTION 1 - ABOUT THE INTRODUCTION OF THE SCHEME

Question 1

Have you been briefed on the new PRP scheme? YES [98] NO [7]
(If No, go to question 7)

105

Question 2
What form did the briefing take?

		YES		
Briefing to the Department	30	☐	no reply	17
Individual Briefing by your Manager	43	☐	both	7

Other (please specify) ....

Question 3

Please rate the Briefing in general as follows (tick):

	1	2	3	4	5	
	Excellent ☐	Good ☐	Fair ☐	Poor ☐	Very Poor ☐	Mean = 2.95
	5	26	41	23	4	

Question 4

Please give a rating against these aspects of the briefing using the scale: (note - scores reversed)

Excellent 1 / Good 2/ Fair 3 / Poor 4/ Very Poor 5

		RATING	1	2	3	4	5	mean
1)	Clear Explanation	☐	5	25	40	19	10	3.04
2)	Opportunity for questions	☐	17	30	32	6	14	2.70
3)	Satisfactory answers to questions	☐	5	13	28	37	15	3.45
4)	Quality of handouts	☐	3	18	23	15	38	3.69

Question 5

Do you understand the following aspects of the Performance Related Pay scheme?:
(If yes, give a rating as above 1 to 5)

A	YES	NO	RATING 1	2	3	4	5	Mean
Objectives setting	86	12	8	17	26	2	11	2.85
Staff dialogue in relation to PRP	64	34	9	10	23	19	3	3.05
Overall contribution	81	17	7	16	29	22	7	2.93

Question 6

How would you improve the Briefing process?

....

....

....

....

SECTION 2 - ABOUT YOUR VIEWS AND EXPECTATIONS ON PRP

In this section, please indicate the extent to which you agree or disagree with each statement that follows by circling the appropriate number in the columns.

		Strongly Agree						Strongly Disagree
Q7	PRP will give me a greater incentive to get my work priorities right.	1 4	2 9	3 28	4 10	5 18 mean = 4.49	6 19	7 18
Q8	PRP will give me the incentive to work beyond the immediate requirementsof my job.	1 3	2 5	3 23	4 13	5 29 mean = 4.66	6 16	7 17
Q9	The principle of relating pay to performance is a good one.	1 19	2 28	3 14	4 12	5 8 mean = 3.49	6 6	7 18
Q10	I am confident that my Manager will take the Objective setting very seriously.	1 19	2 20	3 21	4 19	5 12 mean = 3.35	6 8	7 7
Q11	My Manager is good at giving me feedback on my performance.	1 9	2 14	3 14	4 21	5 15 mean = 4.26	6 18	7 15
Q12	It will be easier to work together with other employees if we receive the same rewardsunder PRP.	1 15	2 13	3 16	4 23	5 15 mean = 3.92	6 8	7 16
Q13	PRP will raise motivation in general.	1 5	2 5	3 11	4 17	5 21 mean = 5.00	6 20	7 27

		1	2	3	4	5	6	7
Q29	PRP will raise my motivation at work	3	0	18	23	14	18	28
						mean = 5.03		
Q30	PRP will help employees' morale in general.	0	3	11	13	18	23	36
						mean = 5.49		
Q31	I expect to receive regular feedback from my manager concerning my progress towards agreed targets and objectives.	22	29	14	18	10	7	3
						mean = 2.98		
Q32	The Job Grading exercise was carried out fairly.	3	15	11	25	15	12	22
						mean = 4.53		
Q33	PRP will help the department to work together as a team.	3	4	19	16	19	23	20
						mean = 4.76		
Q34	PRP will mean that good work is recognised and rewarded.	4	11	19	18	18	12	22
						mean = 4.53		
Q35	My manager will know enough about my work to give me an accurate assessment.	8	14	21	10	16	13	22
						mean = 4.34		

SECTION 3 - Details about yourself

Q36 What age group are you in: (tick)

16-20 [1] 21-25 [8] 26-30 [12] 31-35 [23] 36-40 [20] 41-45 [18]

46-50 [10] 51-55 [6] 56-60 [4] 61-65 [2]

Q37 Are you male [70] or female [34]

Q38	What is your current job grade (circle)	1	2	3	4	5	6	7	8	9
		0	0	8	16	26	29	15	4	1

Q39 How long have you worked for the organisation as a whole:

under 1 year [6] 1 to 3 years [11] 4 to 6 years [20]

7 to 9 years [34] 10 to 20 years [19] over 20 years [13]

Q40 Are you a member of a Trade Union Yes [32] No [70]

APPENDIX 2

QUESTIONAIRE 2 (AFTER)

APPENDIX 2

ATTITUDES TO THE INTRODUCTION OF PERFORMANCE RELATED PAY

SECTION 1 - MEASUREMENT AND ASSESSMENT

Question 1

What has been your overall reaction to your combined ratings?

Very Fair	Fair	Uncertain	Unfair	Very Unfair	
16	51	30	12	7	116
1	2	3	4	5	2.40 mean

Question 2

Have you any views on the method of assessment under 'contributing rating'?

Comments

Customer comes first ....

Total commitment to quality ....

Empowerment and responsibility ....

Teamwork makes a winning team ....

Communication is open and honest ....

Question 3

What was your own rating under 'Teamwork makes a winning team'? ....

APPENDIX 2

ATTITUDES TO THE INTRODUCTION OF PERFORMANCE RELATED PAY

SECTION 1 - MEASUREMENT AND ASSESSMENT

Question 1

What has been your overall reaction to your combined ratings?

Very Fair	Fair	Uncertain	Unfair	Very Unfair	
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1	2	3	4	5	2.40 mean

Question 2

Have you any views on the method of assessment under 'contributing rating'?

Comments

Customer comes first ....
....

Total commitment to quality ....
....

Empowerment and responsibility ....
....

Teamwork makes a winning team ....
....

Communication is open and honest ....
....

Question 3

What was your own rating under 'Teamwork makes a winning team'? ....

Question 10

Please give any specific comments arising from questions 8 and 9: ....
....
....
....
....

Question 11

Are there any ways in which you would improve the scheme? ....
....
....

SECTION 2- YOUR VIEWS ON HOW PRP HAS WORKED FOR YOU IN ITS FIRST YEAR

In this section, please indicate the extent to which you agree or disagree with each statement that follows by circling the appropriate number in the columns.

		Strongly Agree						Strongly Disagree	
Q12	PRP has given me a greater incentive to get my work priorities right.	1 5	2 11	3 31	4 11	5 22	6 13	7 23	116 4.42 mea
Q13	PRP has given me the incentive to work beyond the immediate requirements of my job.	1 7	2 9	3 26	4 16	5 21	6 13	7 24	117 4.79 mea
Q14	I have found that the principle of relating pay to performance is a good one.	1 17	2 24	3 27	4 17	5 9	6 9	7 13	116 3.48 mea
Q15	My Manager has taken the Objective setting very seriously.	1 16	2 29	3 27	4 24	5 8	6 5	7 8	117 3.22 mea
Q16	My Manager is good at giving me feedback on my performance.	1 4	2 23	3 25	4 18	5 16	6 14	7 17	117 4.10 mea
Q17	The performance of my team would improve if we were all paid an identical sum of money under PRP rather than different individual payments.	1 18	2 7	3 14	4 21	5 19	6 17	7 19	115 4.24 mea
Q18	PRP has raised motivation in general.	1 3	2 7	3 24	4 21	5 10	6 21	7 31	117 4.84 mea

		Strongly Agree						Strongly Disagree	
Q35	PRP has helped employees' morale in general.	1	2	3	4	5	6	7	
		-	5	12	22	22	22	31	114 5.20 m
Q36	I receive regular feedback from my manager concerning my progress towards agreed targets and objectives.	1	2	3	4	5	6	7	
		7	10	14	21	18	21	25	116 4.69 m
Q37	I would prefer to return to the old salary system before PRP was introduced.	1	2	3	4	5	6	7	
		13	12	10	28	15	12	21	116 4.12 m
Q38	PRP has helped the department to work together as a team.	1	2	3	4	5	6	7	
		4	8	24	26	20	14	20	116 4.48 m
Q39	PRP has meant that good work is recognised and rewarded.	1	2	3	4	5	6	7	
		7	19	23	17	10	16	25	117 4.30 m
Q40	My manager knows enough about my work to give me an accurate assessment.	1	2	3	4	5	6	7	
		16	26	22	15	8	12	18	117 3.69 m

SECTION 3 - DETAILS ABOUT YOURSELF

Q41 What age group are you in?: (tick)

	1		2		3		4		5	
16-20	0	21-25	7	26-30	11	31-35	21	36-40	17	Average 38
41-45	21	46-50	17	51-55	16	56-60	4	61-65	1	115
	6		7		8		9		10	

Q42 Are you male [85] (1) or female [31] (2) 116

Q43 What is your current job grade? (circle)

1	2	3	4	5	6	7	8	9	Average 5.4
1	1	3	19	21	36	18	11	2	112

Q44 What was your overall rating? [ ] % Insufficient results

APPENDIX 3

EXAMPLE OF 'CONTRIBUTION' GRID

APPENDIX 3

Teamwork Makes a Winning Team

Level					
5	Sought by others, within own team and elsewhere, as an expert. Willingly gives advice and guidance.	Promotes team objectives and spirit to act together to achieve Department and Company goals.	Always contributes own ideas and opinions for the team good. Regularly gains team baking for suggestions made.	Seeks to assist other team members to develop. Motivates others to want to improve.	A major contributor to team success. Fully participates and encourages all other members of the team.
4	Shares information and expertise with the team. Seeks to build on contributions from others.	Encourages others to contribute more in order to improve team success.	Able to put forward own ideas and opinions and positively influence acceptance of the team.	Willingly advises others and gives feedback to develop the team.	
3	Exchanges information with colleagues clearly and concisely. Participates as a full member of the team.	Supports colleagues when possible/able. Trusted by team members.	Prepared to work with the team to develop overall success and advancement.		
2	Normally joins in with the team to achieve departmental goals.	Seeks advice from other team members and occasionally puts own ideas forward.			
1	Works independently. Does not share information or seek opinions of other team members.				

Support

Team Membership

Contribution to Team Success

Contribution to Team Development

APPENDIX 4

Summary of Major British Performance Pay Research Studies.

Swabe (1989) Case Study in the Financial Services
In this single company study, where 9000 were employed (75% unionised) a performance-related pay scheme was introduced after two years of careful planning and a union-agreed ballot, with the main objective being to reward better performers within a controlled cost basis. Comprehensive training in the appraisal process took place for all staff and the merit awards. The appraisal system was based on a series of imposed objectives. The method of calculation was through awarding a merit rating on a five point scale and then converting this into actual pay through a complex pay grid system. An appeals process was built in and was operated in 27 cases in the first year of operation.

The outcome after a year was that management's objective of constraining pay costs was achieved and the views of employees arising from an attitude survey at the end of the first year was that 77% felt that the system was an improvement on the one operating previously and only 4% considered it a backward step. However, 42% did not consider that their merit pay accurately reflected their performance.

Geary (1992) Study of three American owned electronics companies in Ireland

This study looked at reward systems as a whole but much of the report deals with appraisal-based rewards in two of the companies and comparisons with the third where pay was based on the rate for the job. The evidence was gained from a series of interviews with managers and a limited number of shop floor employees. Examples were given of the way that the awarding of merit rises allowed supervisors to make it quite clear what was required of employees and for this clarity to reduce the areas for clashes and argument. 'Desirable work behaviour could be *pulled* by the prospect of future rewards.' (p43) Management's intentions were to individualise the pay contract, make 'mind-set changes' and shape employee's normative orientations.

The views gained from the interviews with employees showed, however, that many employees did not buy into the system. Less than half of the employees were happy with the merit review and most found that the managers' claims for greater fairness to be shallow, chiefly on the grounds of the subjectivity of the review. Management and supervision agreed with the difficulties over providing a fair and objective review and providing consistency across departments. Other difficulties which provided comments from both sides included:

- Collectivism versus individualism – the way attempts were made to develop a collective identity around teamworking but to reward employees on an individual basis.
- Skills development versus flexibility – how the emphasis on moving employees reduced their ability to become highly skilled in one area.
- Integrating all employees through a stock ownership plan but still to measure and pay them on a divisive basis.

In terms of the final outcome, the addition of individual performance pay brought about a general sense of satisfaction with the *overall level* of pay. The pay system also influenced the general dissipation of opposition to increased flexibility - their 'instrumental rationality in the face of changes in working patterns' as Geary puts it.

Proctor et al (1993) – a case study from the electronics industry
This was a research project based on a single heavily unionised company over a five year period concerned primarily with the human resourse implications of the design and implementation of a flexible manufacturing system. Evidence in the pay area was gained from 20 semi-structured interviews from differing levels in the plant out of the 600 employees on site. The introduction of performance pay could be identified as a more acceptable alternative to *de jure* de-recognition.(p64)

The researchers found a far from happy system in operation with variations in the criteria for the awards, assessment grades were concentrated in the middle of the range, the system was costly to operate in terms of staff resources and financial restraints posed a threat to the system. Overall, there was a lack of confidence in the scheme, not helped by the refusal to publish a summary of the appraisal results. The appeal system was not utilised, reflecting the general disillusionment with the system as a whole.

At the end of the research period, the company imposed a pay freeze due to the worsening economic situation throwing doubt onto whether the system of performance pay could continue to operate.

With such a small number of interviews (the break down into management, employees, trade union responses was not given) it is difficult to view the research too seriously. The lack of use of the appeal system (one of the few hard facts given) could also indicate an acceptance, albeit reluctance, of the results and the scheme. The changing economic outlook between 1987, when the scheme was introduced, and 1991, when the article was written, would certainly have an effect on the success of performance-related pay from the viewpoint of management.

Lewis (1997) Research into performance-related pay in financial services industry

As part of a PhD project, Lewis investigated performance-related pay operating in three organisations between 1993 and 1995. The unnamed organisations were a high street bank, a building society and an insurance company. The focus of the study were the managers who were recipients of the scheme. The methodology utilised was qualitative, namely 63 semi-structured interviews with these managers and 23 interviews with the managers responsible for the design of the system or its implementation.

The research indicated examples of clustering of ratings around the middle grade, the influence of favouritism and a lack of communication and feedback. One manager, in pointing out that genuinely good and bad managers were not recognised, said:

'One of the problems with the last award was a difference between a 3 and a 3.5 rating. It translated to 0.1% of the pay increase which was ridiculous. People will rightly say why did I bother? The difference in effort required surely warrants more than that!'
(Lewis, p10)

Feedback on performance was mixed with one organisation approaching the whole performance management process with enthusiasm and dedication but the other two organisations showing little consistency. The lack of communication, especially in benchmarking an individual manager's performance against their peers, failed to provide the information from which managers would have derived 'self-esteem, solace or just satisfied curiosity' (Lewis 1997 p 14)

Lewis concluded that the performance-related pay cycle was not integrated effectively with business objectives or in 'developing resourceful humans' The developmental aspects were clearly missing through ineffective feedback, narrow objectives and lack of differentiation between good and bad performance.

Kessler and Purcell (1992, 1994) Templeton Performance-related pay Project.

This substantial project ran from 1990 to 1993, sponsored by eight companies who provided the survey field. This has been, to date, the largest performance-related pay research project and a number of publications emerged. It was reported that the methodology provided considerable problems and influenced the largely disappointing and inconsequential findings. Eight companies were too large to allow for intensive case study approach but too small to constitute a free-standing database. The companies had different agendas in relation to the research and a number baulked at using employee attitude surveys. They also objected to the attempts to identify indicators of company performance which might be linked to the use of performance-related pay so conclusions on whether the schemes 'worked' could only be sketchy and subjective.

From the managerial viewpoint, the reasons for the introduction of performance pay were a mix of traditional drivers – recruitment, retention and motivation – but a stronger element also came through of using performance pay to assist corporate transformation. The elements here were to promote values of employee flexibility, to move from a collectivist approach to individualism by encouraging direct manager-staff relationships and, finally, to develop managerial skills which focused on performance and achievement.

The two attitude surveys that were used found that:

- Performance pay did not appear to have either a positive or negative impact upon employee attitudes.
- The principle of pay for performance commanded strong support
- Younger employees and those with short service were generally more supportive of performance pay compared to older and long-serving employees. Women were more enthusiastic than men. Union membership did not affect views.

Marsden and Richardson (1992) and Marsden and French (1997) Inland Revenue Surveys.

The 1992 study was funded by the Inland Revenue Staff Association with full co-operation from management and the research was based on 2423 questionnaires (60% response rate) from union and non-union employees. The report describes the origins of the scheme in 1988 where the principle reason given for introduction was one of aiding recruitment, especially in London and the South-East.

The questionnaire asked staff for their views on how they believed performance pay had affected their work and their attitudes. The principal findings were:

- A large majority of staff considered that the scheme had not increased their motivation (80%), a view confirmed by their managers (85%)
- The underpinning appraisal scheme was considered to be fundamentally flawed and unfair.

Despite these strong views, a majority of staff agreed with the principal of performance pay (57%) and that it should stay in place for all its faults. (55%)

The scheme was revisited in the 1997 report which investigated how successful the subsequent changes to the scheme were, including the removal of the 'quota' system which limited the number of high appraisals. This time, the response rated was nearly halved (30%) and, in overall terms, the scheme was seen in a more negative light by those responding. For example, the percentage of respondents who considered that performance pay raised staff awareness of the objectives of the organisation fell from 57% to 38% while 57% thought that managers used the scheme to reward their favourites compared to 35% in 1992.

From a management viewpoint, however, the scheme was seen to increase productivity (from 22% in 1992 to 42% in 1996), cause many staff to work beyond the requirements of the job (from 15% to 37%) and to increase quality (from 10% to 17%). The authors concluded that the atmosphere had clearly deteriorated since 1992 with performance pay a main target of blame by staff.

Thompson (1993a) IMS study

Although not the largest research project, this has probably been the most influential of the last 20 years. Data was collected regarding performance management and reward from three organisations: a building society, a large retailer and a local authority, all of whom operated individual performance pay schemes for all or a proportion of their employees. Over 1000 questionnaires were returned.

The following results were recorded, backed up by extensive statistical analysis using SSPS:

- In motivational terms, performance pay had, overall, a neutral or slightly negative effect.
- Poorer performers recorded a higher negative effect but good performers did not produce a higher positive effect.
- Performance pay had no effect upon good performers' intentions to stay with the organisation.
- There was no evidence that performance pay helped to change organisational culture towards one that was more honest and open, with effective communication systems.
- There was a strong correlation between employees' views of the 'fairness' of the scheme and its motivational effect.
- The most important factor by far influencing the employee's perception of the fairness of the scheme was the relationship with the immediate manager who carried out the appraisal.

- There was no evidence of differing or distinct views between union and non-union employees.
- The more senior the grading, the more positive the view on the scheme and its motivational elements.
- The apparent failure to motivate could have been influenced by the universal lack of consultation prior to the schemes commencing.
- Where training in appraising techniques had taken place, it had a moderate influence on the employees' attitudes towards the fairness of the scheme.

Dowling and Richardson (1997) Health Service Study.

This study evaluated the performance pay scheme for managers in six NHS Trusts in the South of England, using responses from 114 managers.

In contrast to most other studies, the results indicated that managers considered the scheme to have raised their own motivation, if not by a substantial amount. For example, 29% felt that the scheme had a positive effect on their motivation to do the job well, 67% felt that it made no difference while only 5% considered that it had a demotivating effect. Where managers considered the scheme a success, a strong element was identified as the degree of challenge which managers could respond to under the objectives agreed through the scheme. Where other managers found the scheme to be unsuccessful, important contributory elements included poorly performed objective setting, inappropriately conducted assessments and unattractive rewards.

Heery (1998) Performance-related Pay in four local authorities

The operation of performance pay for non-manual employees in four local authorities in Southern England with the perceptions of around 1300 investigated. Discussions were held with 33 managers and 14 trade union representatives.

Heery found that the performance pay schemes generated neither positive nor perverse effects. Employees considered they did not work harder, are not more conscious of the financial costs of their actions, co-operation has not been damaged and they are just as prepared to take on extra tasks. They also believed, a little surprisingly, that their own performance had been fairly assessed and, even more surprisingly, that they were more satisfied with their total pay as a result of the performance pay scheme. Heery did find, however a 'strong under-current of suspicion about the equity of the scheme with substantial percentages claiming inconsistency and favouritism in performance rating' (p88). He found no significant differences related to employee's characteristics, such as age, sex except that higher grade employees were more positive.

APPENDIX 5
Aligning Rewards to Organisational Goals – Merck, Sharp and Dohme's Experience

Published in European Business Review January 2000

5.1.1 Introduction
The way employees are rewarded is starting to alter rapidly. For many years, pay systems have remained relatively stable while the world about them was dramatically changed. These major changes began in the early 1980s, led by the American motor industry giants who had seen their market share quickly eroded by Japanese reliability and price advantage. The motor industry began the west's long march towards customer orientation, efficiency and quality, dragging its employees through successive traumas of re-structuring, re-engineering, redundancy and revitalisation. It became clear that, amongst many other changes, hierarchical structures in predictable environments altered to fluid organisational forms working in uncertain environments (Heery 1996)

The evolvement of the concept of Human Resource Management in the mid-1980s led to the recognition that the workforce was one of the key areas of competitive advantage. How that workforce was recruited, trained, challenged and involved became critical components in ultimate organisational success. In each of these components, reward issues need to play a major part to produce a well-oiled high-performance people machine, focused on organisational objectives.

The key word here is 'alignment'. Reward policies have often been made on an ad-hoc basis (Smith 1992), resulting from immediate difficulties in the labour market or to pave the way to settle awkward negotiations with employees. This has lead to the collection of reward practices being out of line with each other and with the overall business needs. One only has to look at many of the 1970s-style shop floor incentive schemes which were based solely on productivity where good results (often as a result of countless allowances) often led to poor quality, an increase in waste and poor delivery performance. Even today, many schemes of performance related pay have a built-in conflict because they have been devised to reward the achievements of individuals while other parts of the human resource policy puts great emphasis on building up teamworking skills and practice.

In the last 10 years, reward policies have begun to follow the parade, rather than just watching. Commentators, particularly Schuster and Zingheim (1992) who coined the phrase ' The New Pay', set out some of the ways that remuneration systems have altered to match the new style cultures.

5.1.2 Strategy

Firstly, there must be a *reward strategy* in place. It must be derived from and contribute to corporate strategy and be based on corporate values and beliefs. Glaxo-Wellcome, for example, as a world leader in pharmaceutical research and knowing that long-term investment is the only alternative for survival at the top, has a reward strategy of paying salaries at the upper quartile level to attract, develop, motivate and retain quality research staff. Dow Chemicals has a strategy to provide compensation that is responsive to, and reflective of, the quality of performance of both employees and the business. (O'Neill, 1995) Abbey National has used a reward strategy to move from a centralised bureaucratic structure to one that is decentralised with empowered operational units. Textron has recently used rewards to support the strategy of flexibility by introducing skills-based pay while Whitbread Beer Company and Vauxhalls both use rewards to encourage initiative and innovations.
Even the world of fast food has joined in. Burger King has recently announced improved pay and conditions for its staff to help the move to become 'the preferred employer' in the industry (Walsh, 1998)

A further development in reward strategy is related to the development of competencies. Organisations have identified specific competencies which can differentiate them from their competitors. The clearest example is customer service but other examples of 'generic competencies' have included effective communication, teamworking and a focus of quality. It becomes essential for organisations to seek to align these organisational generic competence to the behaviour and performance of employees. For example, a business that sees its competitive advantage as superior customer service must focus employees on the benefits of this strategy. As an aid to reinforcing this process, organisations base some of their rewards on the individual or team achievement in the area of customer care. These achievements can be measured through well developed marketing methods, such as customer surveys or the use of 'mystery shoppers'. Building systems of competence-based pay or incorporating the reward for improving competencies within a performance pay system. Volkswagen and ICL now have job evaluation schemes based entirely on competencies while directly paying for achieved competencies takes place at, amongst other major organisations, Scottish Equitable, Guinness and Royal Bank of Scotland (Brown and Armstrong, 1997)

5.1.2 Flexibility

A second feature is the need for rewards to retain considerable flexibility. This reflects the need of organisations themselves to be nimble-footed. Each generation of new products must be brought to the market quicker. New contracts won in the service sector must be brought on stream in an ever quicker timescale. Reaction must be swift to competitors in a globalised market place. Rewards, then, must not be fixed and immutable but *contingent* upon circumstances and performance. Skills based pay, for example, may be emphasised one year in one division to support the drive for multi-skilling amongst its production employees; at the same time, another division will have a two-year gainsharing plan to turn round a loss-making operation and make it profitable. There has been a growth of incentive schemes introduced to last for only a few months with rewards in the form of vouchers or holidays such as at Cable and Wireless and AEG. (Fisher 1996) These used to be restricted to the salesforce but they are now becoming more widespread amongst administrative, service and even production employees.

As more executives move around Europe, due to the effects of the global market, the need for more flexible reward packages has become more apparent. A single compensation package which, with minor adaptions, can suit a transfer to any country in the world, has become outdated. Integration with the pay system for the country concerned and a reduction in the emphasis on the division between 'ex-pats' and 'nationals' has led to a far more flexible and contingent approach to international long and short-term assignments, as the case study shows.

As a final aspect, to give support to this concept of flexibility in the organisation, employees may be empowered to choose the benefits to suit their own personal situation and needs through a flexible benefits programme, such as that operating at Price Waterhouse or ICL.

5.1.4 Variable pay

A third feature is that pay must become *more variable*. Instead of a wage or salary being a fixed amount each week, month or year, a growing proportion should become contingent upon performance. Performance can be measured on an individual basis, often called performance related pay, or through teams (team based pay) units of operation (gainsharing) or whole organisations (profit related pay). By introducing these schemes, employees are obliged a greater burden of the business as their pay rises or falls contingent upon the performance being measured.

By the same token, the proportion paid to employees as their basic pay must reduce. 'On target earnings' must replace 'annual salary' as the advertising mantra for all employees, not just the salesforce. A fixed pensionable basic salary becomes converted into a base salary making up 70-80% of earnings with the remainder, often non-pensionable, made up of individual or group contingent pay. For senior executives, the proportion of base pay becomes even smaller with chief executives of large organisations receiving no more than 20% on base pay and huge incentives paid out as annual bonuses and share options.

Employees will be encouraged to get more involved in the organisation's progress and performance by incentives to, literally, buy into the organisation. Share option schemes for all employees, usually under the tax-approved SAYE arrangement, have become far more widespread and, for employees of organisations that have seen very rapid growth in the value of their organisations, such as Smith, Klein, Beecham, Norwich Union or many privatised electricity companies, the increased value of the average shareholdings can be quite substantial, running into thousands of pounds in a year. This can also act to increase the employee's commitment to the organisation.

A summary of some of these changes is set out in figure 22.

Figure 22 – The Changing Nature of pay

FROM	TO
Pay as an expense	Pay as a competitive advantage
Compensation for having to be at work	Reward for achieving desired results
Fixed pay grades in a rigid job evaluation scheme	Flexibility within a broad banded structure
Fixed weekly or monthly wage	Variable pay where bonuses are added based on successful performance
Equity sharing limited to Directors	Share Options for everybody
Fixed benefit programme without choice	Flexible benefit programme suiting individual requirements
Pay policies based on government control or national agreements	Pay determined by organisations to meet local conditions
Compressed differentials	Wide differentials from the boardroom to low-paid part-time staff
Paying for length of service	Paying for performance, skills or competencies
Paying for turning up for work	Paying for employee's ideas, initiative and innovation
Bonus schemes based on narrow measures of production	Incentives based on broad measures of organisational success

Source: author

5.1.5 Basic Pay

A final change concerns basic pay itself, which also needs to be more flexible. The first major change has been in how levels of basic pay have been determined. In the public sector and in many large private concerns, basic pay levels used to be subject to national negotiations between a collection of unions and officials from the trade association or government body. In recent years, the volume of such negotiations have drastically declined. In manufacturing, for instance, the national agreement in the engineering industry has been all but abandoned and other industries, such as shipbuilding, are only a pale shadow of their former size. National agreements in the privatised utilities are now very patchy. Agreements still exist in local governments, although not all authorities take part, while the creation of Agencies out of former government departments have served to fragment much of the national bargaining.

Movement to local bargaining in the private sector has been swift. Even a company such as Vauxhall, which only has two sites, has moved back to negotiating separate agreements for each site with certain pay and conditions reflecting local labour markets and site performance. The outcome is that organisations have a much freer hand in ensuring that basic pay is now much closer related to the needs of the organisation in its own location rather than having to fit in with the dictates of a national pay agreement.

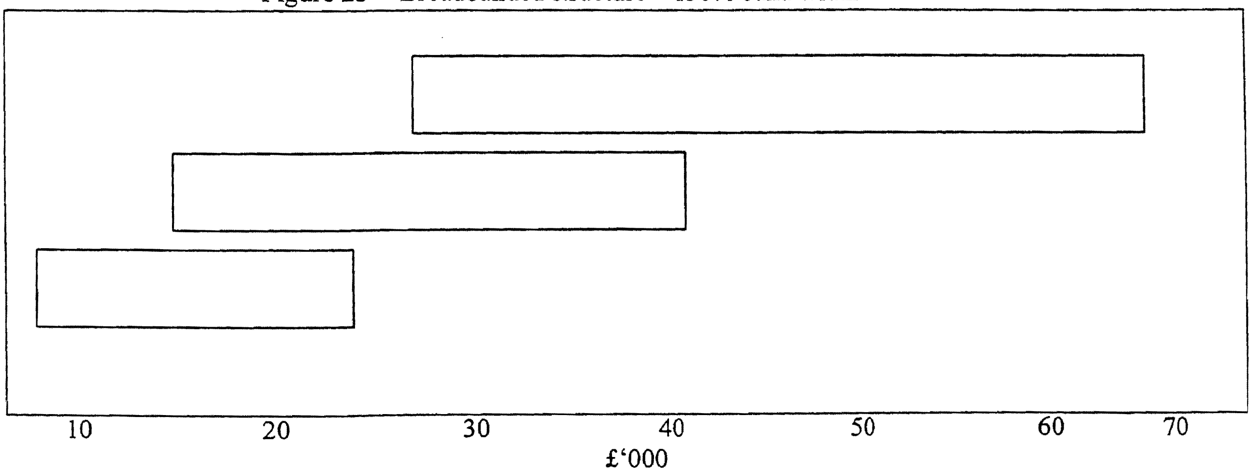
It was not uncommon for national agreements to incorporate a pay structure based on a national job evaluation scheme. As organisations look to their own local needs, there has been a hard look at the benefits of retaining such schemes. Rather than being determined by the traditional job evaluation system with its emphasis on a multi-graded structure together with internal equity, fairness and bureaucratic application of a complex system of rules, the movement is towards the collapse of grades into a small number of pay bands (maximum of five) where movement within the band is determined by the individual's performance and external pay comparisons. These have been called 'Broad-banded' schemes and this subject makes up the main part of the case study in question.

5.1.6 What is Broad-banding?

At the end of a conventional job evaluation exercise, all the jobs studied have been awarded a total of points for all the job factors that have been examined. The next phase is to lay out all those jobs in numerical points order and create a set of grades by fixing boundaries at particular points scores.

In the past , it has been common to create at least 5 and sometimes as many as 15 grades, such as still exist in the Employment Service scheme. The aim has been to create equity by highlighting the differences between the sets of jobs and giving greater rewards to those whose jobs are rated higher than others. The structure is seen to motivate by encouraging employees to bid for promotion to a higher job through a permanent, fair and transparent system. A higher job, a higher grade, a bigger salary, nothing could be simpler or fairer. The first major grading system like this was set up by the American Government in 1923 and operated, with some amendments, for 60 years. (Barringer and Milkovich, 1995)

Figure 23 - Broadbanded structure – 150% band width

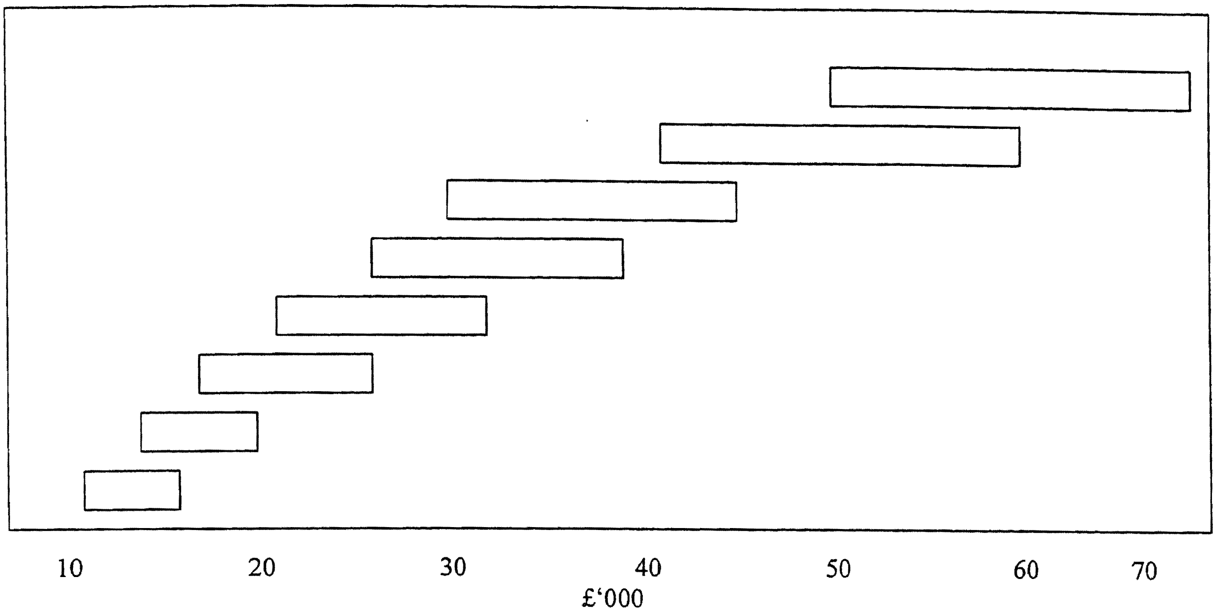


Today, the external environment has changed considerably. Promotions are now far fewer as organisations have de-layered, reducing greatly the number of management and supervisory positions. Employees need to be far more flexible, willing to change their roles and learn more skills to meet the needs of the quickly changing national and international market place. The stiff, hierarchical grading structure is far less likely to match the quick-moving , responsive culture required in both manufacturing and service industries. (Armstrong and Ryden, 1996)

Further criticisms of the multi-grade system is that can encourage the employee to adopt a rigid approach to the job.

"My job has been described closely, it has been fixed at a particular grade, therefore that is the job I am paid for. I am not prepared to do anything new or extra outside of the job description unless I am paid more for it."

Figure 24 - Traditional graded structure – 50% grade width



Long-standing schemes have strong tendencies towards grade drift, which, in turn, causes salary drift and headaches for the remuneration specialist. If the employee loses then the extra work will only be carried out grudgingly, it at all. Too often, employees think of themselves, or describe others, in terms of their grades. To be called a 'grade four' rather than a senior clerk, is still not unusual in organisations where the grading structure is deeply ingrained.

Under a broad-banded scheme, the artificial divisions, which normally distinguish between grades, are ignored. What normally happens is that a set of generic job titles, such as 'manager', 'supervisor', 'operative', 'clerk' are gathered into one large band containing all jobs with this title. This allows all of the employees in an organisation to fit into a salary structure which may have as few as five broad bands. An illustration of the difference between the two structures is shown in Figures 23 and 24.

Being broad, there is a large difference between the top of the band and the bottom. Sometimes the top of the band can be 250% higher than the bottom. (i.e. a range for the 'managers' band from £16,000 to £40,000.Moving up the band is the key to the whole concept. First of all , the decision process is in the hands of the departmental manager to act within guidelines and in line with their budget. This replaces the formalised and personnel controlled re-grading process. (Hewitt Associates, 1994) The criteria for authorising movement falls into four main areas :-

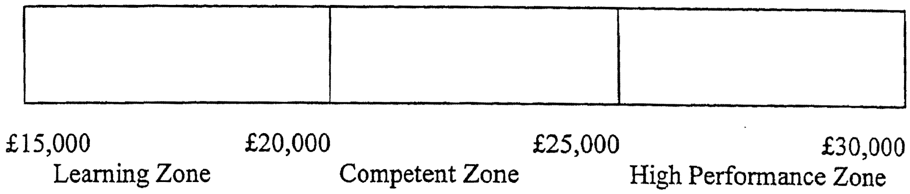
- A **competence** approach where clear guidelines are laid down on the acquisition of important competencies, such as operates with General Electric (Milkovich and Newman, 1996). Measuring them is not easy and will be a mix of subjective analysis, the attainment of NVQs or equivalent, or through third party judgments , such as in 360 degree appraisal.

- An informal system of **job development zones**, where employees move from a probational role through to being an experienced employee and finally to being an expert performer. There are very clear guidelines on how that should be judged and how long that should may take. Such movements are often anchored to market rates, analysed on a regular and consistent basis by the human resources department. (see Exhibit 4)

- **Enlarging experience** approach, where employees move between jobs and between departments, gaining extra skills and generally becoming more useful and knowledgeable employees.

- By **performance**, where the outcomes of the performance management scheme indicates a movement up the band due to enhanced and proven performance.

Figure 25 Broadbanding Zones



5.1.7 Benefits of broad banding

Advocates of the scheme put forward the following advantages :-

- Employees have a much greater incentive to achieve results for the organisation. If they become more competent , have a higher performance or enlarge their skills and experience , then they can be paid more. This encourages the type of values that organisations want to promote. They do not have to wait to apply for grading or a promotion.
- Giving the lack of managerial and supervisory jobs, employees can still make progress with the organisation. By employees improving and being motivated to improve, the job of the over stretched manager becomes easier.
- The system is far more flexible. New jobs and processes can be introduced easily without worrying about employees' narrowly defined jobs.
- By putting the decisions in the hands of the manager they will act realistically and responsibly towards their staff and their total salary bill.
  Managers view broad bands as creating a more flexible environment in terms of directing their own careers because the system links earnings potential to performance rather than advancement. (Abosch, 1995)

5.1.8 The downside

- It can be seen that broad-banding could be regarded as much more than a sophisticated version of the salary structure in a small, informal organisation that has not yet found the necessity for job evaluation. In fact, broad-banding can be so flexible that there is actually no need for job evaluation. This informality can lead to all the accusations of subjectivity and favouritism that led to job evaluated wage structures in the first place. Unless the criteria for salary progress are robust, really understood and operated fairly, then the system will not be seen as fair itself.
- There can also be a tendency for it to be expensive. Under narrow grades, employees came to the top of their grade and realised they may have to stay there unless promoted. Under broad bands, most employees see an almost unlimited opportunity to make continuing progress and managers may find difficulty in holding salary increases back , particularly if employees meet the criteria.
- Employees may be de-motivated if they meet the criteria but the manager's budget restrictions stop the increase. Under traditional job evaluation schemes, budget restrictions could not stop a re-grading.

Making sure that managers act in a consistent fashion across the whole salary structure is not easy. The role of the human resources department here is crucial in acting as an auditor, an advisor, mentor and informal adjudicator. Without such a fallback, the wage structure is more than likely to fall into chaos.

5.1.9 Merck,Sharp and Dohme's move to broad banding

Merck,Sharp and Dohme Ltd is a wholly-owned subsidiary of the US based company which is one of the world's leading pharmaceutical companies operating in every major market throughout the world with a very strong market position in Europe. There are around 1,500 UK employees in a number of sites with the Head Office based in the Home counties. It is not unionised, although joint consultative committees discuss points of mutual interest.

In view of the huge sums invested in research and development, centralised control is more common in the pharmaceutical industry and this has been reflected in company policy on reward management. Together with training/development, Merck,Sharp and Dohme has always regarded reward systems as key areas of human resources and has put them at the heart of their integrated corporate systems. Employee appraisal, job evaluation and pay determination mechanisms are established at the US headquarters and cascaded through the various subsidiaries world-wide. Therefore, managers operating in, say, France will be appraised and rewarded under the same system as in the UK.

The Hay job evaluation scheme had played a central and successful part in the overall pay system for over 20 years for managerial and senior technical staff. Each and every position has been carefully evaluated, Hay points allocated and the employee's basic salary determined by the Hay system on a range of 80% to 125% around the salary control point. This control point was carefully researched in relation to the market place through extensive and continuing market surveys and generally represented a point around the upper quartile of market rates.

The responsibility for determining the Hay points lay with the HR department who were extensively trained in the Hay process and kept very close liaison with Hay staff on market developments. Most managers knew how many Hay points had been allocated to their job although they generally knew little of the scheme details and were unsure of how the precise points total had resulted. This was less well known at lower levels.

5.1.10 Pointers for change

As part of their close relationship, Hay carried out a regular audit of the scheme's operation on an international basis. In 1992 their audit showed that difficulties related to the application of the scheme had begun to surface. There were two main problems. Firstly, it was becoming increasingly difficult to align the scheme successfully across America and Europe. During the 1990s, the economic circumstances in America had been markedly different from Europe. Their recession had been earlier and was not so deep as that occurring in Europe. Even within Europe at that time, economic circumstances varied greatly between, say Britain, where unemployment had been rising steeply for two years, and Germany where their steep rise had yet to begin. These differences, accentuated by currency fluctuations, were reflected in the job market and the salaries required to attract the right calibre individuals. It was becoming impossible to encompass all of these varying cases in one all-embracing scheme.

Allied with this problem in the operational and administrative grades was the problem of work flexibility. As employees' jobs were increasingly being stretched due to reduced headcount, team working , mechanisation and computerisation, the rigidity of the Hay evaluation scheme was placing strains on work patterns. There was also a growing demand for re-evaluation of jobs which was proving unsettling.

The final problem was the growing difficulties of switching jobs. The era of de-layering had started (although on a low-key basis) and some employees whose jobs had been redefined or re-engineered, were being offered alternative jobs. More commonly, employees developing their careers were considering and being offered jobs seen as 'lateral' moves by the company. In a number of cases, employees were refusing jobs that carried fewer Hay points (say, from 588 to 571) even though the salary and other benefits were identical or even better. The rigidity of the Hay scheme became a barrier. Problems with international transfers between America and Europe or within Europe came into the same category. When the market pressures were added to these problems then it became impossible to operate an efficient salary structure inside a narrow banded scheme

5.1.11 Designing a new scheme

It took two years of deliberation from the 1992 Audit to the launching of the revised system as part of a world-wide compensation re-design programme sponsored by the US corporate head office.

The principal feature was the establishment of revised broad-banded salary structures. The first global system was for professional staff and had five grades in total from graduate entry to senior management a total of over 2000 staff worldwide. The second was for administrative and operative staff and was specific to the UK. An extensive mapping operation took place to fit the existing jobs into the Hay grades. The *know-how* element of Hay evaluation was retained as the principal measure and the grades fell roughly into line with one step of know-how.

The salaries established against the grades were a more tricky problem. The intention was to establish a grade range that encompassed all of the jobs and the current job-holders salaries. As in all salary re-organisations, not everybody fitted into the structure. Moreover, the US head office preferred bands that were not too wide, probably with a range of 50% from bottom to top. This was felt to be too narrow by the UK HR department and lengthy persuasion was necessary to allow the scheme to have bands of around 75% for grades one to five and 125% for the senior management grade five. The new salary bands at that time are set out in Figure 26 :-

Figure 26 - MSD Broad banded salary structure - Management

Band 1	£14,500 - £27,000
Band 2	£20,000 - £40,000
Band 3	£33,000 - £64,000
Band 4	£47,000 - £95,000
Band 5	£61,000 - £130,000

The process of slotting employees into grades was achieved by the normal process of establishing a series of benchmark positions and then comparing all other jobs with those benchmarks. With only five grades in total this presented few problems. The HR staff carried out this exercise, liaising with line management to confirm straightforward decisions and consulting over the five per cent or so that did not naturally fit. It provided the opportunity to remedy perceived distortions where the Hay system had not adequately recognised a complex and sometimes unique role.

For the UK administrative grades, similar principles applied although the number of bands was restricted to three and the band width was smaller at around 70 per cent (Figure 27)

Figure 27 – MSD UK Administrative Bands

Band 1	£8,000 to £13,000
Band 2	£12,000 to £19,000
Band 3	£17,000 to £27,000

5.1.12 Market Information

As is common with large multinationals, decisions on salary movements within the broad banding system have always been heavily influenced by the market information provided by the HR department. (Sable, 1990) This information is generated from four main sources, predominately from within the pharmaceutical industry:

Exchange Groups - Merck,Sharp and Dohme has joined together with other top companies in the industry to exchange information on compensation and benefits. These groups meet at least twice a year and provide detailed breakdowns of crucial salary movements and any innovations in benefits or incentives. They have a high value to participants in that the information is focused, the service is free, up-to-date and is accurate. Participants can follow up particular areas of interest on an informal one-to-one or small group basis.

A major consultant's salary club established the pharmaceutical pay survey more than 15 years ago and now has 100 participating pharmaceutical companies in the UK. The company has around 1000 client companies in over 40 surveys covering particular employment chapters, including one for secretarial and clerical staff in the South East. A conference is organised once a year for the pharmaceutical group to consider the findings in their surveys and discuss wider issues. The information is important for monitoring pay across the full range of professional roles and to consider any areas where special skills shortages are developing, demonstrated by exceptional pay inflation.

Hay survey - This is a very substantial and wide-ranging survey of organisations that regularly use the Hay evaluation scheme. It provides very useful checking information to confirm Exchange group data and to compare pharmaceutical management and technical salary data with other industries.

Local surveys - Merck,Sharp and Dohme takes part in local salary surveys for locally recruited jobs such as accounting and clerical staff, storekeepers and security staff. This is, in effect, a local exchange group and is free, with the information very focused.

Exhibit 7 provides an example of information on market trends provided to line management and a Salary Guide Matrix for management grades based on market data terciles. In total, the budget set aside for gaining market information works out at about £4.00 per employee plus the cost of half a person to collate and process the information into regular internal reports.

5.1.13 Salary determination

The authority for determining initial basic salaries and for movement within the salary band still lies with line management. The comprehensive market information provides them with a more precise tool with which to make these decisions. Rather than the rigid Hay progression system of moving steadily between 80% to 125% of the control point, employees are now recruited into what is seen a reasonable market salary and then they may progress to the upper quartile at an appropriate speed. This is justified through their manager's perception of their performance, acquisition of market-valued skills and their value to the company, not simply how long they have worked for the organisation. The width of the bands provides a greater flexibility than before.

Figure 28 - MSD Example of Market information for Line Managers

£14,500----------------------Band Salary Limits------------------------£27,000

£18,300 --- Sales representative --- £25,500

£17,200 --- Planner --- £22,700

£20100 --- Personnel Analyst --- £26,400

Examples of Inter-quartile ranges

A second advantage is the flexibility provided for changing organisation structures. For example, the sales force structure was fundamentally structured two years ago with significant changes to job roles and many new roles established. Slotting existing employees into their new roles and managing many salary adjustments arising was a much easier process under the grading structure where there was no issue of total Hay points, just a consensus on the know-how factor and a continuing discussion on individual progression through the grade. The degree of precision necessary has been much reduced.

5.1.14 Performance Management

The final part of the basic salary determination jigsaw is the PM system. Currently, this is a corporation wide system with a fixed distribution of designations in particular groups depending on divisional performance. The first group are 'TF' (in the top 5%) the next TQ (top quintile) and the next group are 'Outstanding' with 'Very good' and 'Good' being the next categories. LF (lower 5%) brings up the rear and this category leads usually to no pay rise, bonus or stock option for the recipient. As with all other PM systems, difficulties arise when employees drop a notch, being TQ one year and only 'Outstanding' the next.

The PM system, which is also the basis for the payment of incentives and stock options, takes place in December/January with decisions on bonuses taken in February and paid in March before the end of the tax year while salary changes are implemented from April 1.

5.1.15 Incentive arrangements

On top of the flexibility that the broad-banding scheme brings to employee rewards, the company also operates two separate incentive packages which has led to the rewards being more variable. The first is a annual award, arising from a 'pot of gold', determined by the overall organisational performance, cascaded down the operating companies and units and distributed according to the individual's performance. The employee guide to this scheme makes it clear that the criteria for bonus distribution within one unit may be different from another unit because each will have different business requirements.

The second payment, based on the same criteria as for the annual award, is in stock options and has a more limited application but with the clear intention of increasing the employees' commitment to the organisation.

5.1.16 Summing up the total package

In moving towards the Broad-banding system, Merck,Sharp and Dohme has not regarded the change as revolutionary, more an evolutionary process reflecting the faster nature of the changing world and the need for a greater degree of flexibility. The operation of the incentive schemes encourage that degree of flexibility as set out in the 'Employee Guide':

' Your manager might decide to:

- *Provide more of your total reward by increasing your base salary, if you are paid low in your defined job range, and provide you only a modest annual bonus.*
- *Limit your salary increase because your base salary is right where it should be, relative to the market, but provide a larger annual bonus because you have made an outstanding contribution in the last year.*
- *Combine an annual bonus, which rewards current contribution and performance, with a stock option grant, which can have future value and emphasises long-term reward, to deliver total compensation that reflects the nature of your contribution.*

The scheme has been well received by employees to date. The somewhat tortuous process of appeals against total Hay points have been abolished and the new arrangements have led to no formal appeals under the company grievance procedure. The rewards, though more variable, have proved very beneficial to date for employees in line with the current period of general high profitability aligned to the business cycle. Should the business cycle turn to one of recession, then the variability of the rewards would work in the opposite direction.

Further evolutionary progress may come through systems of team-based pay and 360 degree appraisal, both of which are currently being evaluated but, like any new pharmaceutical product, they need to be tested with extreme care before being marketed to employees.

Can we conclude that there is no 'best practice' any more?

The earlier part of this paper emphasised the need for strategy, flexibility and variability and the case study has shown how one particular organisation has moved in this direction. As reward structures and systems need to be aligned to the specific requirements of the organisation, then it follows that there is unlikely to be a 'best practice' that will work in all environments. For example, Conservative government enthusiastically embraced performance related pay, demanding its implementation through the Citizen's Charter and through integrating its introduction with the creation of numerous agencies. The outcome has been far from successful in many situations, including universities, the health service and the Inland Revenue. The failure of pilot schemes in the Police Service ensured that its general introduction has been put on the back boiler. (Taylor, 1997) The reason for these failures is not hard to find. Individual performance related pay does not align with the general organisational strategy of co-operation and intrinsic rewards that are often at the heart of human resources in the public sector.
For HRM practitioners, therefore, it becomes essential to look at the overall business needs and to identify how reward strategies can assist in guiding and changing employee behaviours which will lead to long-term performance improvement. Strategies that do not just follow political agendas or attempts to follow the 'best practice' procession but those that meet their own organisation's unique requirement.

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APPENDIX 6

DAVID WEBSTER LTD: A CASE STUDY IN THE PAYMENT AND OPERATIONAL SYSTEMS INTRODUCED THROUGH COMPULSORY COMPETITIVE TENDERING

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ABSTRACT

This paper examines the development of operational and payment systems in a small company that has responded to the entrepreneurial challenge presented by UK legislation promoting compulsory competitive tendering. An analysis is made of the alignment of reward strategy with the business imperative. A comparison is made of the contrasting approaches relating to risk-sharing, flexibility and new patterns of work between the local authority labour force, with its traditional public sector approach to providing services and David Webster Ltd. which introduced a raft of innovative measures. Implications for the public sector are outlined and discussed.
Managerial and Policy implications (to be added)
Key words :- Pay for performance, CCT, flexible working, rewards.

5.2.1 INTRODUCTION

Compulsory Competitive Tendering (CCT) was one of the major reforms of the Thatcherite era for whom it was a key political platform to support a more entrepreneurial economic culture thereby reducing the size of the public sector. The central vision was to increase cost effectiveness and the quality of service to the public.

This case study seeks to illustrate the hypothesis that, to operate successfully within the changed environment, organisations need to change the levers that support and control the new methods of working. The pay system is seen here as a key lever.

5.2.2 ALIGNMENT OF PAY TO THE BUSINESS IMPERATIVE

Strategic reward management concerns the design, implementation, maintenance, communication and evolution of reward processes which help organisations to improve performance and achieve their objectives.(Armstrong and Murlis,1994)
Human Resource Management theory introduced the concept that separate initiatives in Personnel would fail if they were dysfunctional to the corporate environment in which they operated (Storey, 1992: Guest,1987). A lack of coherent and systematic HRM strategy, including reward related issues such as job evaluation, can compound weaknesses in the company's operations (Debrah,1994).

Until the end of the 1970s, the objectives of the British public sector was to achieve equitable treatment for its stakeholders. All areas had to be brought up to the same standard and operate in an identical fashion, no matter if their needs and requirements were different. Centralised planning systems with intricate controls were introduced together with more substantial centralised funding. This was reflected in terms of pay with centralised wage bargaining to produce standard pay systems and terms of employment. Employees and their representatives were regarded as just as important stakeholders as the electorate or the community and power was awarded to them accordingly.

Unfortunately, the events of the late 1970s when there were numerous strikes in the public sector, where rubbish accumulated in the streets and the dead were left unburied, coincided with a political and economic imperative to drastically reduce public expenditure. The new Conservative government recognised the opportunity to make changes in the Industrial Relations legislation that would have broad public support and, in the late 1980s, to encourage the public sector to move to de-centralised pay agreements which contained elements of variable and contingent pay (Murlis, 1992)

Numerous attempts followed to graft systems of performance pay onto the public sector with mostly disappointing results (Bright and Williamson, 1995; Spence,1990; Fowler, 1988) It was clear from these examples that the process of operating a system that relied upon flexibility, initiative and subjective local judgments did not lie comfortably with an organisation run in a centralised, bureaucratic, rule-bound way.

Proponents of the "New Pay" (Schuster and Zingheim, 1992) argue that total compensation strategy "aims" pay programmes at what the organisation wants to accomplish. Simple and flexible strategies are most likely to encourage action; complex and rigid strategies are more likely to create confusion and inaction. These strategies can be seen as a source of competitive advantage as they encourage flexible employees with initiative and ambition to join and stay with the organisation (Milkovich and Newman 1996). This supports the writings of Porter (1990) who has postulated that reward management (compensation) is one of the key determinants of the competitive success of nations.

Research by Wood (1996) has indicated that the pay systems associated with successful "High Commitment Management" are not wholly associated with bonus schemes that pay either individually or through teams. It is the way that these schemes are constructed to match the organisation's requirements that is crucial to their success or failure.

5.2.3 INTRODUCTION OF CCT

The concept of CCT originated in Tory-controlled Home County local authorities who experimented in the late 1970s in putting small parts of their public services out to tender. The authorities were able to achieve this process because the number of staff involved was small (sometimes in single figures) and often because a deal was reached with the in-coming contractor to take on all staff who wished to transfer. On a few occasions, the union was in too weak a position, even in the 1970s, to rouse itself to outright opposition. The consequent savings made (some authorities quote 20% or more) led the in-coming Thatcher administration to convert this voluntary process into a compulsory one by passing the Planning and Land Act 1980 which was strengthened by the Local Government Act 1988. Currently, £2.4 billion of local authority work is under CCT. (LGMB, 1997) A strong current of anti-collectivisation ran through this legislation as the administration wanted to remove the union stranglehold on vital public services and well understood that the successful contractors are often small and either non-union or where the union influence was marginal. Not that contractors are always successful. It is still true that over 80% of all CCT work is won by the Local Authorities Direct Services Organisations (LGMB, 1997) Small firms have particular difficulty dealing with the detail in the tendering process, the size of the contract itself and the need, expressed in the tender (although often ignored in reality) to obtain a quality standard such as BS 5750. (Abbott et al 1996)

Those that have been successful have been associated with an entrepreneurial, risk-taking and opportunistic character. Often they are owned and controlled by the founder of the enterprise. Their driving force has not simply been wealth creation but also a genuine desire, as customer themselves, to see a continuing improvement in efficiency and service. The means of achieving such improvement is centred on changing the ways that employees work and using pay to reinforce these changes. David Webster is one such company. The author worked for this organisation for a short time and has subsequently returned for research and consultancy activities. Data for this study was gathered over a two year period by interviews with David Webster, his fellow Board members, operation supervisors and street lighting operatives together with full day observations of the lighting operations.

5.2.4 DAVID WEBSTER LTD

David Webster Ltd was founded in the early 1960s as a street lighting contractor in a buy-out by David Webster from a family connected building contracting business. Its early years were spent erecting new street lighting units for a number of Councils in Southern England with a small labour force varying from 9 to 20.

In 1966 the quality of service it had provided was a key factor in the awarding of the contract for maintaining all the street lighting for Hatfield District Council in Hertfordshire. Like many local Authorities, the contract had been carried out over a number of years by the Electricity Board. This was the first example in the UK of a local authority awarding a contract for day-to-day lighting service activities to a private contractor. This contract was for an initial 3 year period but has been renewed in various forms every since and now exceeds 30 years.

Building on that experience, the company won a small selection of maintenance contracts, gradually spreading its activities around the Home Counties, including Bromley and Richmond. During the 1980s another arm of the business developed as work on civil engineering lighting work grew, culminating in substantial contracts on the M25, M1 and other major road works.

By the time the CCT legislation was passed, the company had grown to 200 employees with a turnover in excess of £10 million. CCT provided the opportunity to tender for contracts on a nationwide basis and a number of substantial contracts were won. These contracts and two strategic acquisitions allowed the organisation to more than double in size by the early 1990s. It remains a private company wholly owned by the founder and his family.

5.2.5 OPERATING CONTRACTS IN THE PUBLIC SECTOR

A typical local authority *lighting contract* operated by David Webster Ltd involved remedying defects in the 20,000 or so lighting points in the District . A list of work would be passed to the contractor to remedy within a fixed time, usually 3-5 days. . An inspector working for the authority would inspect a selection of these defects to ensure that they had been remedied properly on time. Other work involved the cleaning and painting of columns, bulk lamp replacements, planned preventive maintenance work and the repair work following traffic accidents. All of these activities had a fixed payment and financial penalties were applied if the work was not completed on time and in accordance with the specification.

5.2.6 CHANGING METHODS OF OPERATION

From very early days David Webster had realised that the traditional local authority pay system operating *prior* to the introduction of CCT was inappropriate for his method of operation. Under the local authority system, terms and conditions were negotiated nationally by local authority unions to cover a wide range of employees in a variety of services with some small local variations relating to working practices. In the interests of equity, employees working in street cleaning, cemeteries, grounds landscaping, etc. would be on the same conditions and their pay would be determined by the national grading system. Lighting operatives would have a 40 hour week with hours from 7.30 a.m. to 4.30 p.m., Monday to Friday with an hour's unpaid lunch break. They would start from the depot and be allowed 30 minutes to load up and a further 30 minutes to unload plus a short paid mid-morning break. They would work in two man teams because this had been conceded as a general safety issue. They would be allocated work for the day but bad weather, shortage of material, problems with the vehicle or a difficult remedial job could all be reasons given why the work was not completed. That might mean that overtime was required, paid at time plus a half.

Supervising the work and verifying the reasons given for poor performance was not easy, as the operatives were spread over a wide area and often without communication to their base. *Bonus schemes* were occasionally tried by some authorities but were generally unsuccessful, for the following reasons :

- (1) The schemes needed to be negotiated with the unions who were generally suspicious and demanded earnings safeguards before agreeing to their introduction.
- (2) A major cause of disputes related to the external factors that hindered output. Unions would insist that allowances were given for vehicle breakdowns, bad weather, etc. and claims in these areas provided difficulties for the unit manager. If they agreed to the claims, then this would lead to further claims, often difficult to authenticate which, in turn, would lead to wage drift. If they acted tough and turned the claims down then unions would become hostile to the scheme and may decide to terminate it. Worse, the claim could be taken over their heads to a meeting with higher management. If agreed at that forum, it would do much to undermine their authority.
- (3) An additional problem related to the potential extra pay coming from the scheme. High performance could give an employee an extra 10% in earnings. However, working a Saturday 5 hour overtime shift could give an employee almost 20% earnings increase. It was far more profitable for the employee to extend the time taken to do the work, allow it to accumulate then work the overtime. This was particularly true when such Saturday shifts were often on a 'job and finish' basis and could be completed in 4 hours or less !
- Artificial cut-off points or ceilings for the bonus were often inserted which allowed only a limited amount of improvements. There was no incentive, therefore, to extend performance over those limits.

Schemes were therefore difficult to agree, difficult to operate fairly, open to manipulation and unlikely to motivate. It was clear to David Webster that a system where lighting operatives were working on fixed hours, to a flat wage, with a fall back overtime system and a closely defined job met only the requirements of the routine, predictable operations of a closed community. It did not fit the requirements of the flexible, profit-seeking, CCT environment in which David Webster worked.

5.2.7 NEW PAY SCHEME

The essential features of the new pay scheme, which was to be at the heart of the company's operations, are set out in table 1.

Firstly , employees do not work under any fixed hours. They have keys to the main gates of the depots and can start work and finish work at whatever times suit them. They are expected to work a 45 hour week but the hours are not counted. Only complete days of sickness are noted. There are no official breaks, paid or unpaid. Employees can take as many or as few breaks as they wish. If employees wish to start at 5.00 a.m. summer to avoid traffic and finish at 2.00 p.m. to play a round of golf, they are free to do so. They can also choose to work a 12 or 13 hour day. There is no time given for loading or unloading - the quicker this is done, the more time employees spend on the work to be done.

Secondly, the basic hourly rate is quite low. It varies a certain amount by geographical location but is generally around £4.00 an hour, much lower than the basic rate paid by the local authorities.

Thirdly, there is a substantial bonus scheme. The employee receives a bonus for each piece of work priced on the basis of the amount that the authority is invoiced under the terms of the contract; so much for a lantern repair, so much for a repair to the electrics at the base of the column, and so on. Details of these prices cover 2 pages of A4 paper and it seems, at first, to be a very complex scheme. However, employees learn each job under training and the 80/20 rules apply : 80% or more of their work comes under 20% of the work categories and many of the prices listed are rarely used. The employee records each job done and this is used to pay bonus *and* to invoice the authority. Any false claims by employees, therefore, have a double check built in.

No allowances are given for any special circumstance relating to the work - weather, difficult work, etc. The justification for this is two-fold. Firstly, that the authority pays no allowances to the company. When the contract is tendered, the company has to build into the price a sum to cover such circumstances. Secondly, the swings and roundabouts argument applies where an employee hit by difficult circumstances one month will, by the law of averages, have some easier circumstances the following month. The on-target earnings under the scheme aims to allow the average employee to more than double their earnings through the bonus scheme.

Fourthly , there is no overtime. Employees who wish to work more hours do so by being issued with other work, if available, or by helping on other routes that are shorthanded through illness when they have finished their allocated work. They do not receive any extra basic hours in these circumstances, although they can earn bonuses on the extra work. For this reason, there is never an incentive to spin out the work.

Fifthly, their contract is one of flexibility. They can be moved about within the contract onto whatever work is available. Furthermore, they can be moved onto a nearby contract if the necessity arises. For example, employees based on Hertfordshire contracts have been moved onto the London Borough of Ilford contracts. Flexibility extends to working as a one-man or two-man operation which are carefully delineated in terms of health and safety issues and terms of the contract.

Finally, there are some downsides for the employees. The *sick pay* is very poor and the company recognises this. It is only a small contributory scheme dealing with the very occasional week-long absence. Overall, this is not regarded as too big a problem as sickness is very low and absenteeism negligible. There is no *pension scheme* and there are none of the additional *benefits* that a large organisation may offer such as Private Health Insurance. Employees are encouraged to finance these long-term schemes through their enhanced earnings and occasional meetings are organised with financial advisers to assist where necessary.

5.2.8 THE EFFECTS OF THE BONUS SCHEME

It can be seen that this form of bonus scheme under CCT encourages the employees to see themselves as more like a set of mini-contractors, each with their individual contractual responsibilities to provide a cost effective and profitable service to the public with the prime responsibility to help win the contract at the next renewal date. It is feasible to see the bonus as their slice of the contract's profits. A well organised, efficient employee earns high bonuses. The self-regulating nature of the scheme overcomes the significant difficulties that usually apply when trying to supervise at a distance.

The bonus scheme has a further advantage. By linking it so closely to the prices agreed with the local authorities, employees are involved in the heart of the whole business operation. They can appreciate which individual items have higher margins than others and where savings can be made to benefit the organisation. The units are small enough for regular meetings to take place between the manager and their teams to discuss how to improve operations for their mutual benefit. Tips on efficient working are shared around. The entrepreneurial spirit also spills over to the attitude of the employees towards unions. David Webster has not been overtly hostile to unions and ballots have been held on union membership at the largest unit with full management co-operation on 3 occasions. Each time, a substantial majority of the employees voted against joining a union.

A recent development has been the introduction of bonuses for Unit Managers. This is based on the Return on Capital employed at each unit. A general target percentage return is set and for each 1% above target, a bonus is paid. The nature of the local authority main contract is taken into account as some contracts were won with lower margins than others. The feedback to managers through this reporting system and the accounts that underpin the scheme have given the managers a far greater understanding of finance and unit profitability and rewarded them for efficient working. Recent developments include the movement to de-centralise purchasing to the Business Units, which gives managers greater opportunity to control their operations and improve their bonus by better planning and organisation. Other staff at the units also receive part of the bonus and this has been modified to include an overall bonus for Head Office staff.

5.2.9 CONTRASTING APPROACHES - MEETING THE CHALLENGES IN THE PUBLIC AND PRIVATE SECTORS

For David Webster, changing the reward structure has been an essential feature of the operational changes required to produce a profitable operation within the CCT confines. The starting point was the construction/contracting industry where bonuses are endemic, so this has meant no major cultural change for employees, except for those who have moved with the contract from a local authority culture. The increasingly tighter interpretation of the Acquired Rights Directive by the European Court of Justice, operated in the UK under the Transfer of Undertakings (Protection of Employment) Regulations, 1981, has meant that all local authority employees who wish to, transfer to the new contract with their existing terms and conditions. The changeover to the David Webster Ltd method of operation is now slower than it was in the 1980s when Local Authorities made their workforce redundant and the new contractor started with a clean sheet. Transferees now work under their old terms for a few months before they are given the choice of changing to the new ways of working. Most choose to accept as it gives them increased earnings and a more flexible lifestyle.

For the Local Authorities, the challenge comes on two fronts. Not only do they have to compete against private sector organisations that employ more efficient and profitable methods of operation but they also have to work within centralised union agreed terms and conditions. Although bonus arrangements can be superimposed on these terms, they still retain the rigidity of allowances, fixed hours and pension costs. The challenge is to devise and agree terms that can match the required flexibility while retaining the security and predictability of earnings that is the hallmark of the public sector. The 1997 pay negotiations recently concluded have given encouragement to further degrees of flexibility in exchange for benefits harmonisaation and thereby enable local authorities to promote further initiatives in more flexible pay systems.

CCT remains a controversial area. Advocates point to the substantial cost savings made by local authorities with an improved service (or, at least, one that has not deteriorated) but evidence is lacking here either way. Opponents point out that employment becomes less secure and safety standards are at risk. The new Labour government has indicated, at the time of writing, its scepticism for the compulsory aspect, although encouraging local authorities to continue market testing and obtaining value for money.

CCT has a number of attributes which may appear to give it a superior position in the pantheon of human resource management theory. It promotes flexibility in working practices, it has a clear unitary approach in its employee relations, it is customer focused, it encourages innovation, it has a positive employee involvement programme and performance pay is central to its operations. This has been wholly adapted by David Webster in their system of operation. On the other hand, CCT can also produces an environment of insecurity as the contract comes up for renewal every 3-5 years. When CCT is supported by an incentive based pay system, it can encourage long and unsocial hours, too great a focus on high productivity at the expense of some quality and safety aspects and a concentration by employees on short-term earnings as opposed to longer-term benefits such as life assurance and pensions. Without sufficient control, schemes may degenerate into conflict between employees over internal equity issues such as work allocation.

The innovatory approach detailed in this case study is in contrast to the study of pay systems in small and medium size non-union firms by Beardwell and Storey (1996) where they found little evidence that pay and reward systems had a strategic foundation or any innovatory zeal which non-union firms are supposedly expected to display. The majority tended to have a conservative, traditional or merely pragmatic approach, nor did they appear to be particularly adept at avoiding the normal pitfalls of labour market pressures, internal differentials and the need to arrive at explicable pay structures. Many have no discernable pay strategy at all. For this reason, broad conclusions based on the David Webster case alone should therefore be treated with some care. It is an example of a conscious, successful and continuing attempt by an entrepreneur to align the pay system to the business needs but further research is required to determine both the degree of importance of the innovative pay system and whether genuine success in the area of CCT can be achieved through more conventional payment methods.

Figure 29
Comparing traditional Local Authority terms and conditions with David Webster scheme

TRADITIONAL WORKING PRACTICES	DAVID WEBSTER SCHEME
Fixed hours of work	No fixed hours
Fixed loading and unloading times	No loading or unloading times
Fixed breaks	No fixed breaks
Two men teams	Team size to fit job requirement
High basic wage	Low basic wage
No bonus scheme	Bonus scheme a key factor
Overtime endemic	No overtime
No movement between contracts	Movement between contracts as required
No penalties for poor quality	Penalties for quality
Generous sick pay	Limited sick pay
Involvement limited	Involvement crucial
Just a job	More like a small business

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APPENDIX 7

CLUSTERS ANALYSIS

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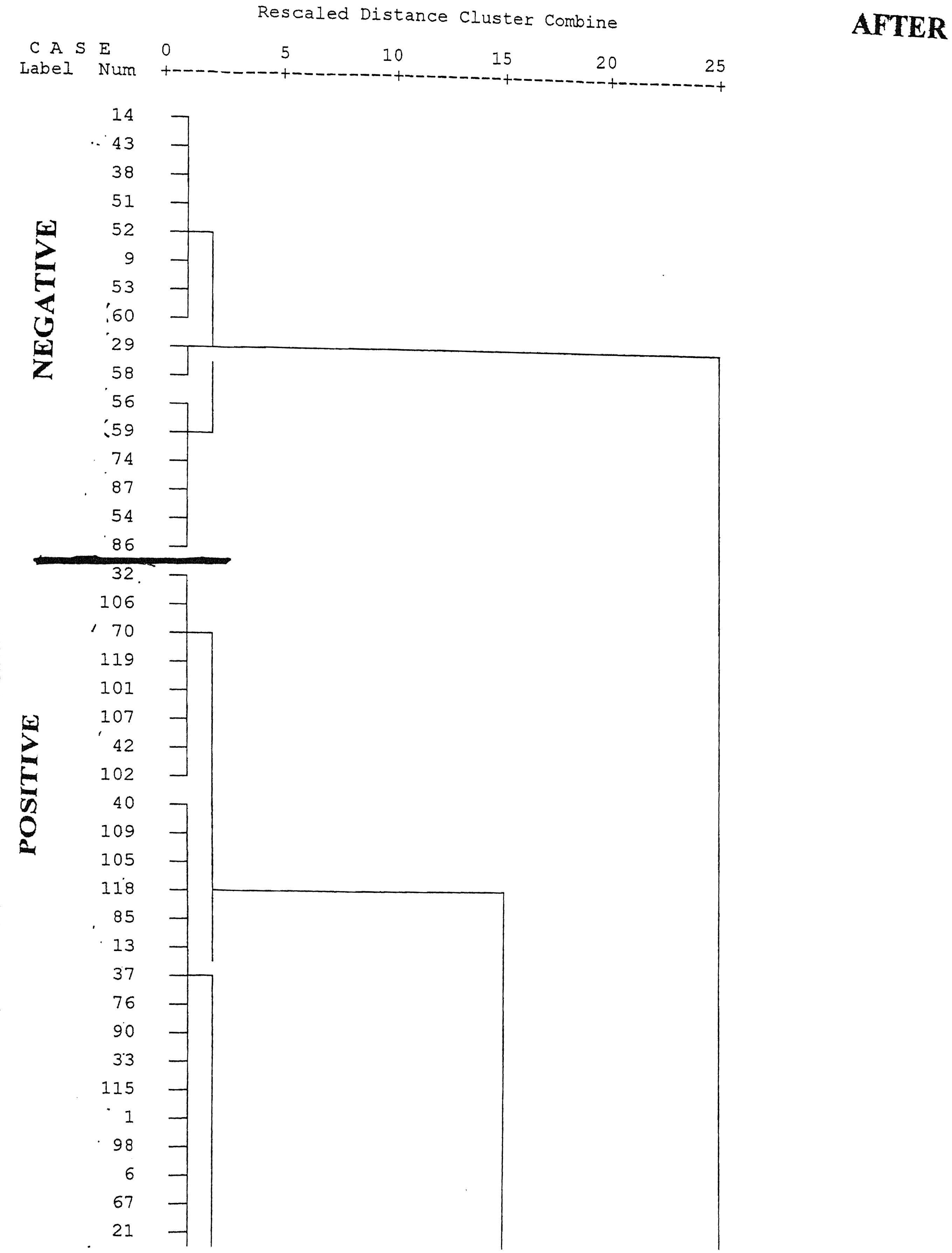
Dendrogram using Ward Method



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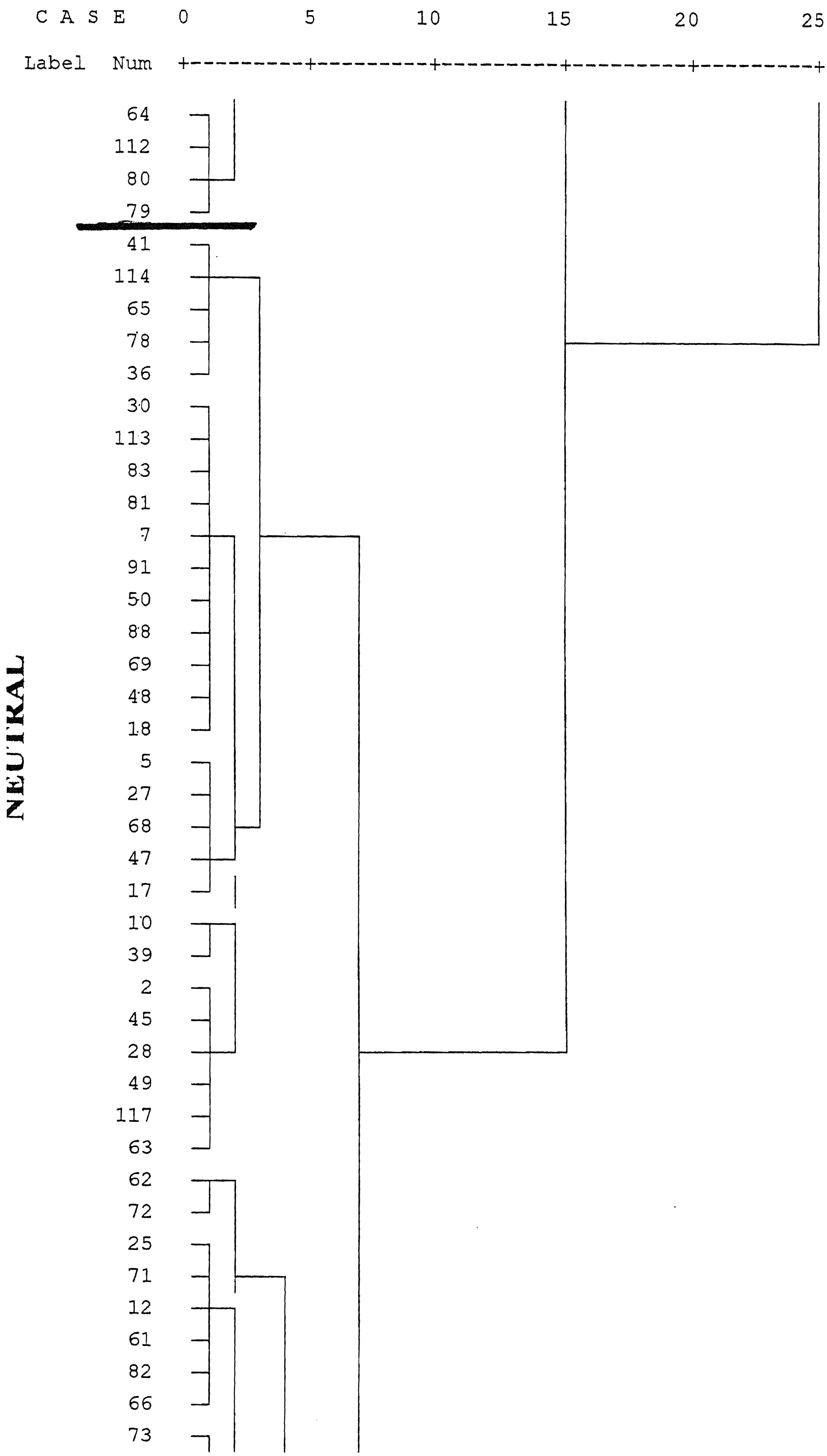

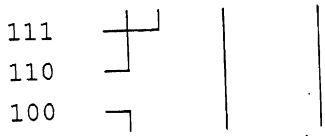
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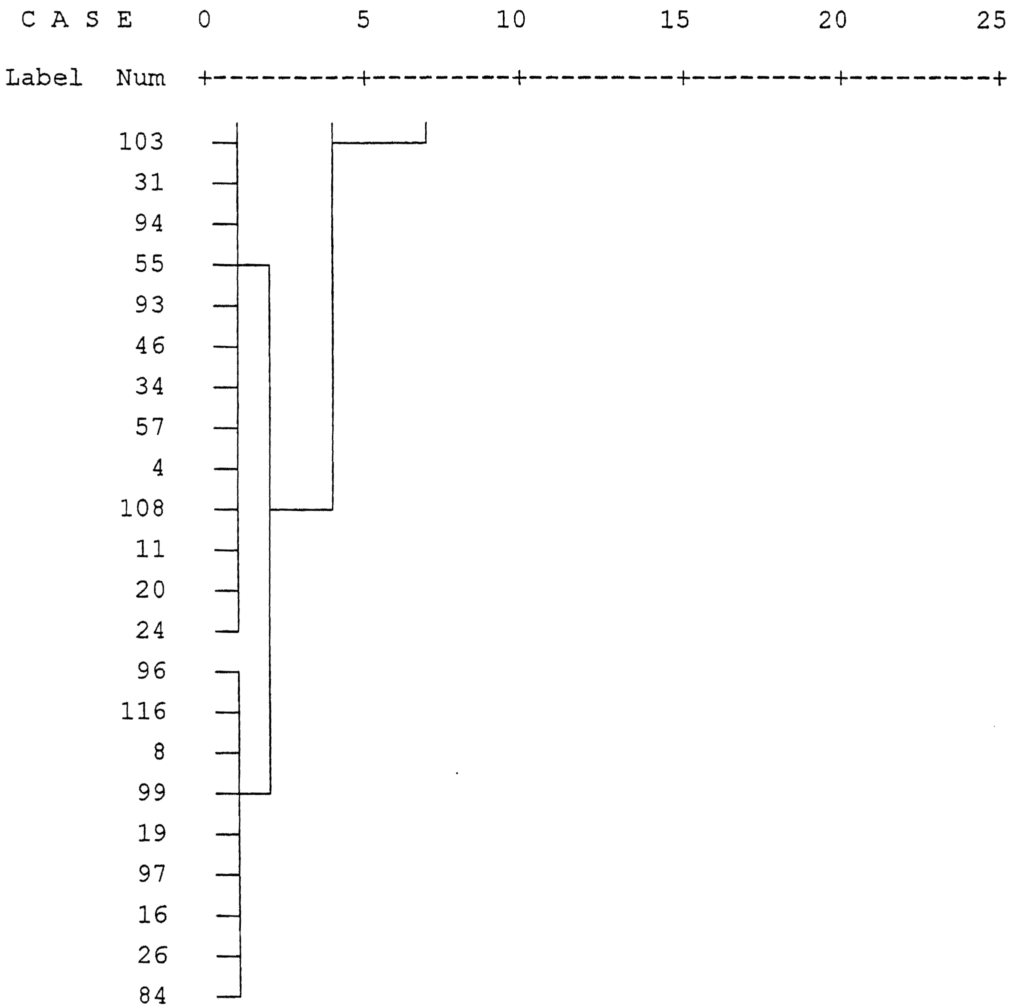

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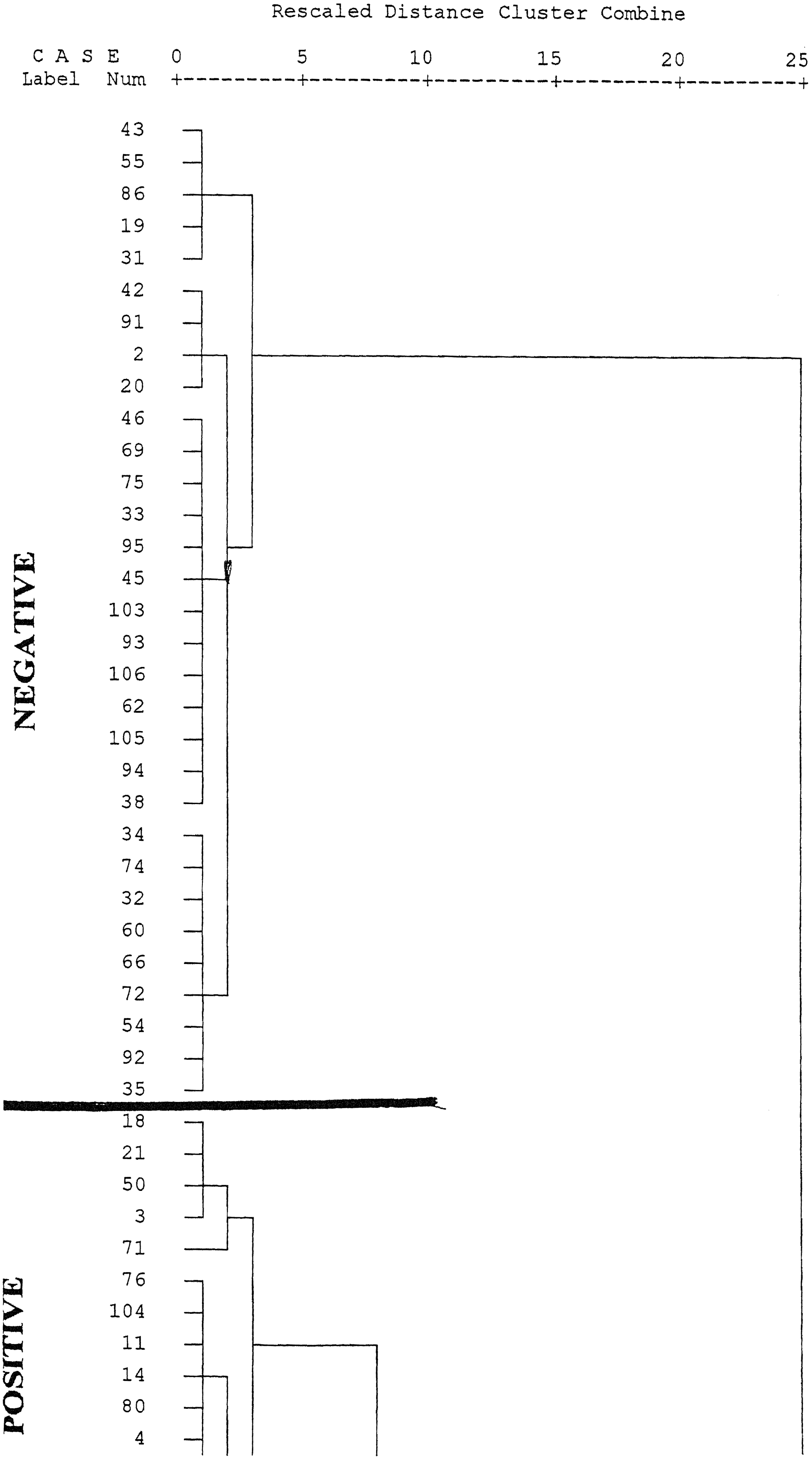

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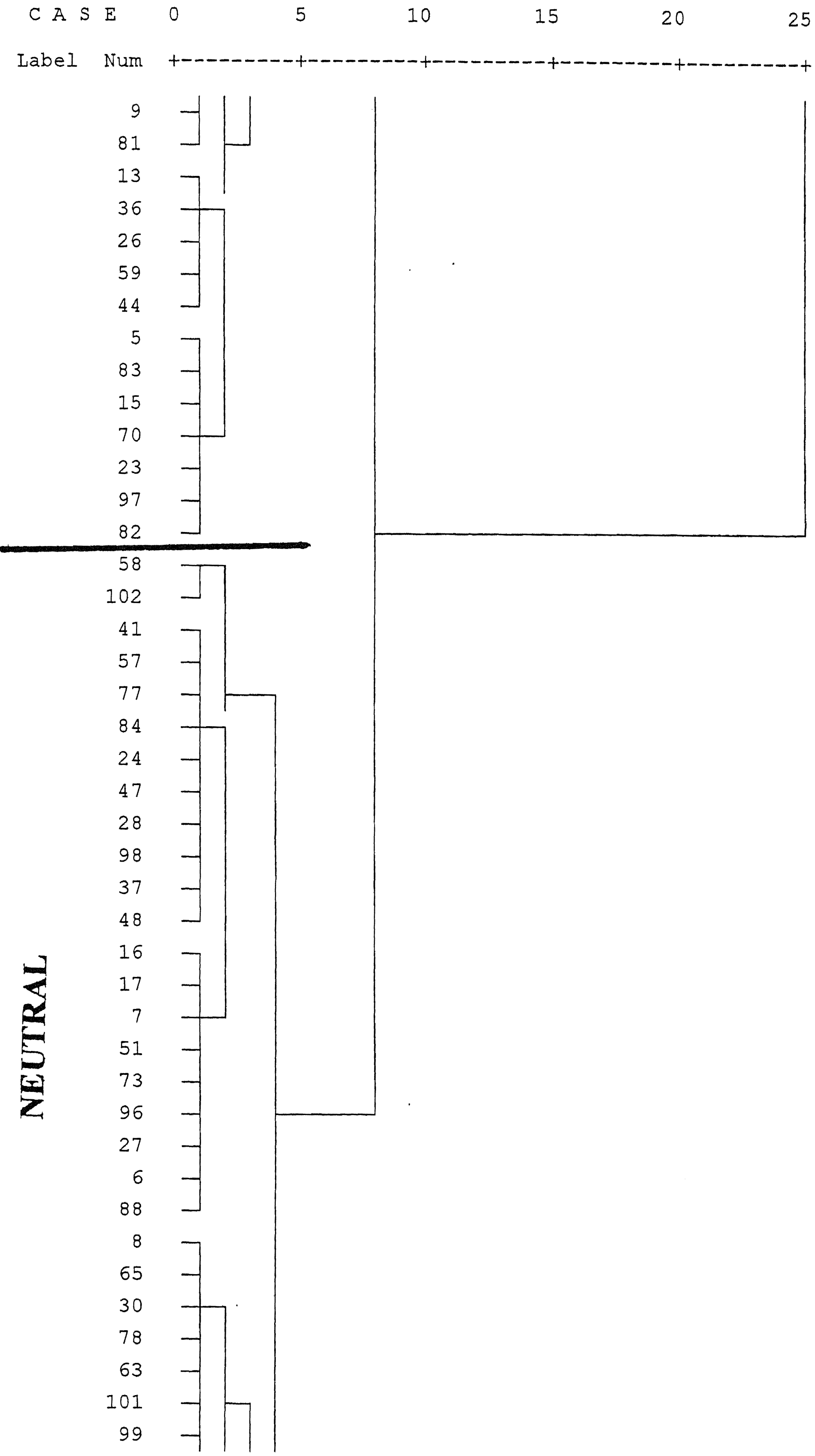

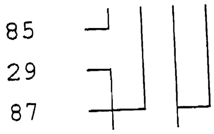
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